THIS IS THE ROAD

TO

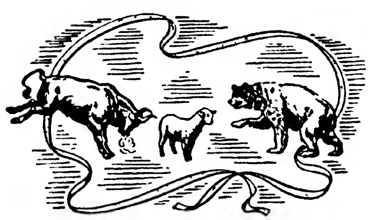
STOCK MARKET

SUCCESS

THIS IS THE ROAD TO STOCK MARKET SUCCESS

By the Author of

THE
SEVEN PILLARS OF
STOCK MARKET
SUCCESS



SEAMANS-BLAKE
CHICAGO, ILLINOIS

1944

COMPOSED, PRINTED AND BOUND IN THE UNITED STATES OF AMERICA

BY THE ART PRESS, INC., CHICAGO, ILLINOIS

CONTENTS

PREFACE

I HAVE attempted to arrange this work in a way that elementary theory and practice will come to you first — and as you progress — advanced theory later. Be assured, however, that *every page has its relative importance.* This work gives you technical theories and practices in plain language and sound reasoning. It creates the foundation upon which you will build sound market knowledge. Study hard, and monetary rewards will follow.

Above all — have patience to read on and confidence in what you see in these pages. This edition of the book — begun in 1937 as "The Seven Pillars" and rewritten in 1939 — now comprises not only the best of all the editions but also the essence of all my written lectures (Trade As You Learn Course) during the period 1938-1941.

The law of the "survival of the fittest" applies to this work. Incorporated here are *only ideas that stood the test of time—of war and peace markets—ideas of a practical nature for you as a layman.*

Do not "skip" chapters and pages with the purpose of getting at the "meat" of this book in the least possible time. Do not "rush" your education marketwise. Of course, you are "an exception" for more than one reason. You have traded in the market for quite some time. You have no doubt read "The Seven Pillars" — "The One Hundred Rules" — and perhaps were a student in my "Trade As You Learn Course". Take my advice. *Read and re-read every page.* You cannot tell in advance which pages in this book contain the proper "vitamins" for your particular ailment or shortcomings. You may well find it in the first twenty pages — but it is important that you consider this book as a study for months to come. When in doubt — consult its pages again. The answer may be easier to find after a third or fourth reading.

Random Thoughts

There are few people who really have big troubles in life. Those who do, find their troubles on the front pages of newspapers. Since, with most of us, our personal affairs have not yet appeared on the front page — we must assume that we have never had any grave difficulties. We can, however, eliminate the little troubles — *such as trading in the market on the losing side* — by concentrating on the minute details connected with our transactions.

Remember, that as a rule, *if you start right you will end right — if you start wrong you are bound to end wrong.* The road you take on the way to profitable trading in the market will lead you to your goal *providing you choose the right road.* Should you come to a fork in the road, however, and take the wrong path — you will be twice the distance from your goal. If you make a losing trade — your next trade must be twice as profitable.

You can be successful in the market and in every walk of life providing you *eliminate little troubles and mistakes. Do not let them pile up into big ones. Start right!* If you have made a mistake, eliminate it as soon as possible. A mistake is like a bad tooth. It will have to come out eventually. One bad tooth will affect the rest of your body, one mistake must lead to another. *Do not let them grow and accumulate.* The inevitable result is trouble of a serious nature. Rectify your mistakes by eliminating them right at the beginning.

My purpose is to first teach you *how not to lose your money. If I can succeed in getting you to think for yourself* — profits will inevitably accumulate. It is in the nature of things. If you continue to trade you are bound to make profits — particularly if you are *with the trend.*

But first of all you must learn sufficiently about "market action" so that trades negotiated will "break even" at least, and you can continue to trade with the capital with which you began. I am not holding out any false hopes. *There is no short cut to knowledge.* The stock market has its own language and its own anatomy, and

keeps on changing continually in line and harmony with new political and economic horizons.

After reading the ideas that follow you may decide that you have no business in the stock market. You may decide that the job is too tough. That in itself could be of great value. If you do not "belong" — or if you are after "easy money", get out, save your money, and you will have done yourself a good turn. But, if my ideas arrived at through my experience as a successful market adviser to thousands of clients all over the world, bring you to the realization that there is only one way to trade profitably — and that is *by placing your "upper story" in a position to decide your own course to follow* — its purpose will have been accomplished.

I am endeavoring to offer herein some common sense on how to trade and invest successfully. *The road is a hard one.* To make proper investments and profitable trades you *should be able to analyze the processes and movements going on in the world today.* The old notion of American isolation has fallen from grace by recent events. Stock market gyrations are frequently set in motion by economic and political developments abroad. The war years 1939-1943 are conclusive evidence. Knowledge "globe-wise" is your greatest asset. Capital alone can be a liability.

Before you have read very far you may find that *your character and make-up will prevent you from trading successfully. Perhaps you have a "fear complex" which paralyzes clear thinking and acting.* Or perhaps you expect good results without adequate preparation. Perhaps you are the "superman" type who "succeeds" where others fail. It may be that the very personality traits which are of help to you in other work are dangerous here. "Know thyself". This is as important and indispensable a principle as trading *with* the trend of the market. Learn to know your personal strength and weakness. Be neither a hero nor a coward. Ask yourself if you are the jittery, nervous type who cannot bear to see the tape clicking without your direct participation. If so, you are lost before you even begin. Your broker will be the only one to profit.

Are you the type who buys securities because John Smith thinks they will go up? If so, donate your money to charity instead. It will at least serve a useful purpose. Are you in the habit of buying

stocks because *everyone is buying* – and because things "look" bright and rosy? Then invest your money in a home. At least it has a "foundation" – that type of trading has none. Are you in the habit of selling out after a market drop when things "look" gloomy? Are you deferring your buying until "times are better?" Then you are trading on precisely opposite principles. My aim is to show you *how*. But *you* will have to do the actual work. *Buying* this book will not help you any. *Reading* it over and over and over again *will* help you.

* * * *

A wise man will hear, and will increase learning; and a man of understanding shall attain unto wise counsels.
—(The Proverbs.)

CHAPTER I

And Now We Begin

OUR present-day world is chock full of news of every variety. There is the news or "tip" which your friend whispers to you. These choice bits of information are invariably the same. Intending no harm, your friend tells you that a certain stock will soon move forward. He has heard from so and so, who in turn was told by Mr. Jones, the president of the XYZ corporation. Naturally, you are influenced by these "highly authoritative" recommendations.

My advice to you is to disregard them. Never take "tips". Never ask your friend for advice — nor for that matter *the* president of *the* corporation directly. Aim to achieve that stage of development which requires neither "advice" nor "tips". Your friend who obtained the "information" about that particular stock should not be relied upon because real information is *not* handed out gratis. Valuable tips which mean money are not whispered in barber shops from ear to ear, but are locked in vaults.

The president of the XYZ corporation's "tip" (providing he is really a friend of yours) may be reliable — since no one knows better than *he* what is going on in *his* corporation. However, the *value* of the tip must not be judged by his friendship, but (a) by his knowledge *marketwise of his stock;* and (b) by the decision of other traders or the public at large. While he may, with complete integrity, recommend shares in his company because of some new development in sales or organization — he possibly has not measured this advice by conditions to come. Most likely he has not considered international events, political and economic reasons, etc. *In time you will learn to take "tips" from the market only.*

"Market Action Is the Most Reliable 'Tipster'."

Personally, I prefer to study the condition of a stock or industry *through its market quotations and the action of the stock itself* —

rather than by inventory sheets and sales reports. These reports frequently appear "too late" and offer "too little" of real value stock-marketwise. *The action of the stock tells its story.* If it goes down farther than other stocks — or stands still in a rising market — something must be wrong. Likewise, if it does not decline as much as other stocks in the same "group" — or even advances in a down market — it is a good stock. The inarticulate stock is in a much better position to know the reason for its behavior than most officials of *the* corporation. Very often a sharp drop in the market is the very thing that awakens the "officials" to make inquiry and at times discover what is wrong with their company as told to them by the "action" of the stock on the market.

The "tip" that is generously given to you as a sign of friendship is usually a "well-known secret". Frequently, it is one of a whole series of steps in a well-planned whispering campaign to have you buy *at the wrong time.*

The market is rarely influenced by something that is already known. It is influenced greatly by unknown, unpublished and anticipated events. When the news of the event becomes "public" the stock market usually turns about and acts in the opposite way you would normally expect — *discounting a new set of circumstances as yet unforseen.*

Of course, any sudden news of a catastrophic nature will momentarily affect the market. *However, there is very little that the market as a whole does not know in advance.* The market is truly and verily a "prophet". If you learn to judge the market by its action — and if you trade by what "market action" tells you — you are truly and verily following a real prophet. By the time "news" appears in the press it is too late to act — the damage has already been done. The market *corrects the damage in some degree* because it has already discounted the news in a previous move — and it seldom discounts the same thing twice.

The market foresees, *through the minds of its traders* much that is unknown, concerning itself mainly with events in the future. *Mass knowledge* takes into account only the *present* and is, therefore, a *negative* instead of positive factor. Mass psychology in an *inactive*

state is usually taken advantage of and discounted in advance by those in power or "in the know". Mass psychology in an *active* state feeds itself on mob instincts. *The mob is always wrong,* with perhaps one exception — when it seizes power to enforce its psychology. (Like Fascism in Italy.) Then we may hear it said — and perhaps unwisely so — that "might is right". Do not "bet" your money (trade) on what is obvious. The market never reacts to "sure things", unless it be in the opposite direction.

Your worst enemy in the market is every form of external suggestion. Conversations, rumors and opinions are bound to influence and confuse. Therefore, avoid this as much as possible. *Marketwise be a "Lone Wolf".* If you go to your broker's office *do not get into conversation with the "customers".* Directly or indirectly, they influence the trader. Motivated as he is by the emotions of "fear" and "hope" — he is apt to follow their spontaneous decisions. *Keep your trading a secret. Some day you will understand the importance of not boasting to anybody in reference to your profits or mourning over your losses.*

I have met a number of men conversant with market theories. One in particular has taught me many valuable lessons. In the privacy of his office his market judgment was as sound as any I have ever known — but the moment he permitted himself to be influenced by the gyrations of the tape — or by the external influences I have mentioned — his judgment fell to zero. He is the type of man who is easily affected by freely offered opinions in brokers' offices, with the consequence that he frequently permits his sound judgment to fall into discard.

It is well for us to remember that the most sacred and enduring expressions of the soul take place in solitude. According to the Prophets, prayers performed in the privacy of ones disturbed soul have freer access to God than prayers in church. Market decisions and actions in many ways are comparable — necessitating a high degree of freedom at every step and requiring above all else a spirit of solitude.

Money can be made in Wall Street if one develops or possesses the qualifications essential for good trading. You must, however, be willing to apply to trading the same alertness which you put into your business or profession. Not only must you diligently apply yourself — but you must be capable of hearing and reading "heaps of advice" and have the rare fortitude in *not taking* any of it unless it be in harmony with your own analysis. The situation should be analyzed clearly and impartially, and after this is done you must have the *courage to act* in order to profit by your analysis. From every side efforts are made to influence you to do the wrong thing. None will force you to take or make a profit — but "everybody and his brother" can force you to take losses. Keep your head. At every turn consider objectively and analytically what is taking place. *Your decisions should be based on substantial reasons and facts.* Once you have arrived at opinions — *Act. Do not at the same time retain any pride.* If you find that *you were originally wrong have the courage to reverse your actions.* There is no worse trader than the one who indulges in "hopes" that everything will "come out O. K.", and is, therefore, slow to go into "reverse" when such action is called for in order to stop potential losses.

When you develop these qualities and the sense of application in working out the stream of problems which invariably come up — you, too, can make money in the market. Above all, it is important that you *do your own trading,* and not be guided by "advice" which you do not comprehend. Be guided by what you have learned — by what you can understand. *"Tips"* generously given by your "best friend" should not be followed blindly. Base your decision to trade on a *study of the market situation which you have analyzed* and upon the conclusions at which you have arrived.

Not until you learn to do your own trading by your own analysis of events, will you progressively become more successful. Trading exclusively by advice from "others" make you subject to all "others" mistakes, shortcomings, and possibly foul play.

———

Almost everyone has set opinions regarding Wall Street. Some believe that the "Street" is made up of a gang of thieves and cut-throats who take money from poor widows. Others think that the

stock market is operated and controlled by Morgan, Rockefeller and other men of their type; that due to manipulation there is not a chance in the world for the average layman to make money. Still others regard the market as a medium for buying and selling securities legitimately — thus affording the public the opportunity of investing its savings and capital in American business. Some are under the impression that the Stock Exchanges are gamblers' nests and just as uncertain as playing poker or "following the ponies".

The truth is that Wall Street was at one time or another a combination of all — depending largely on the attitude of government and enlightened public opinion. Being human, of necessity it possesses all human traits—all virtues and vices. It does not make a specialty of robbing poor widows. Why should it when it can take money away from so-called "wise guys?" And why not, if they are willing to give it up? Ninety percent of the people in the market really have no business to be there. Would the thousands of professional men in the country be qualified to practice their professions if they had not prepared themselves by years of schooling for their highly specialized work? The ninety percent of failures marketwise came to the market unprepared (emotionally, psychologically and technically). They paid the market an extremely high tuition fee for their "experience" — considering that most of them did not absorb their "lessons" at all.

Among the hundreds of letters which I receive from my clients, there are a good many from doctors, lawyers, engineers, accountants and other professional men. These are the very men who have given years of their lives to prepare for their work, and if their careers are successful (as evidenced by the fact that they have surplus cash with which to trade) the basic element can be ascribed to the years of study and intelligent application to their learning. When the lawyer has saved his client from the chair it is because he analyzed the facts thoroughly — permitting no detail to escape him. Similarly with the physician whose patient hovers between life and death — it is a matter of diagnosis and more diagnosis before he takes a step. Nothing can be overlooked.

But when these very men enter the market they leave their analytical minds and intelligence in their laboratories and offices. They

refuse to follow the same high standard responsible for the success in their own profession. This analogy holds true for the business man and the manufacturer. Before installing new machinery or purchasing raw materials he will calculate and plan every detail; write for quotations, weigh value, quality, service; and above all analyze and study the sales possibilities (at a profit) for his product. But sadly enough, he will purchase securities merely because someone 'phones him that the market is a "buy". *He leaves the possibility of selling at a profit to chance.*

It is interesting to study the psychology of the public as stocks rise and fall. The public never considers — when the market is booming — that *there is a limit to its going up* — and that it would be well to cash profits some time. Quite the contrary, that is just the time when they see the sky as the limit; consequently, they buy as the "Street" unloads. In the final stages of a declining market they first begin to "fear" that it can drop lower. Others hold on desperately until they are sold out on a "margin call" — or are forced to sell when depression in their business calls for extra cash.

The reason the public finds it so hard to make money in Wall Street *is not because of "marked cards". The public is playing a game it knows nothing about — and is not willing to learn.* It takes attention, work and study to know the Wall Street game. Unless you are determined to give *time* to the study of the behavior of the Stock Market—time away from your favorite "pleasures"—you might just as well save your money. Sooner or later you will be parted from your purse. Your opponents in the market are giving it all their time and energy, and "enjoying it" besides. Do not take it that study of "market action" is drudgery. If you "have it in you", you will derive greater pleasure and satisfaction from market study than from any other hobby-lobby — including "wine, women and song".

If you are under the impression that Wall Street operates in harmony with itself — you are decidely mistaken. There are varied and diversified interests — each intent on getting money not only from the public — but from "other" interests. It should be said in their favor, however, that no matter how divergent the inner contradictions of Wall Street may be — they retain a "united front" for the purpose of "shearing the lambs". That is the road of "least resist-

ance". They call it *"Distribution"*. The public *are* like lambs going to the slaughter house — unaware that it is a *one-way street.*

Your objective (I assume)) is to stay out of the "lamb" class or you would not be reading these pages. To accomplish this you must enrich your mental faculties with requisite background — thereby becoming a "shearer of lambs" instead of a "lamb to be fleeced". In the final analysis, the money which you will make in the market must come from the "lambs". (Do not consider me "hard-boiled". This book has for its main objective the rescuing of some "lambs" from "Butcher Alley". I am merely stating facts).

Therefore, you must learn to trade in the direction that is opposite to that of the public. *It is only to the degree in which you are successful in ascertaining what "they" are doing (in Wall Street) — and in following their footsteps that you can come out ahead.* You must learn to be as shrewd, as technical, and as calculating as "they".

You Must Learn to Understand Market Action

The men who perpetually trade successfully *are* the proper people for the market. How do I know? By the very fact that they are successful. They have the necessary prerequisites: foresight, knowledge, calmness and shrewdness. You must play the game as technically and unsentimentally as they. You must size up what is in the news — read between the lines — and act accordingly. You must be able to differentiate between "stale" and "future" news yet to be published — but nevertheless in the process of being born. Yes, you must learn to "conceive".

Most professional men (physicians, lawyers, etc.) are "suckers" in the market. The reason is obvious. The physician has been trained for *his* profession — *his opponent* for market trading. If the market is your place — then give it attention. Like the God, Jehovah, it is jealous of other gods. *More money can be made in the market than in any other profession or work.* More money can be made in your old age after you have acquired experience than in your youth when you are paying for your experience. Only the man who concentrates on the subject has the advantage of trading intelli-

gently. The "game" changes as often as the world, our country, or a particular industry. You have to be "up to things" — or down you go.

The worst of all possible "traders" are the gamblers. They are seldom ahead. Now, this may sound contradictory since you may regard stock market trading as gambling. Very definitely it is gambling for those who do not know their way about, and put their money on a "tip" or "hunch". With this method one can remain in the market only as long as his money lasts. *My job is to teach you to speculate successfully. A speculator is not a gambler. He assumes a minimum of risk* because he trades only when he is more or less certain to benefit. True, he may lose — but he does not start off on that assumption. The ticker, the trend, economic conditions, the technical condition of the market — and other visible elements indicate to him that he is on the right track before he will speculate in stocks. If a trade goes against him, he will cut his losses short and make another attempt later *under more favorable circumstances.* A gambler tries his "luck" again immediately under the same conditions. A speculator meditates as to the *reason for his loss.* If conditions are not ripe, "Dame Luck" can be of little use. A gambler remains a gambler. To satisfy one's gambling instincts, one should play "bingo", poker or "bet" on horses. To the Market Temple, however, one should come clear of such "sins" as "impulsiveness", "instincts" or "hunches".

Trading Is a Science and Not Gambling

Another common fallacy of the public is the matter of margins. We hear that because margin accounts are "sold out", the public loses money. That is nonsense and confuses *cause with effect.* Very often people, in trying to find an excuse for their failures are reluctant to admit that it is their method which is wrong. They prefer to ignore the *cause,* blaming their failure either on Wall Street — or on being "sold out" on margin. All they can see is the *result* — but not how it came about.

Marketwise, you should be thankful for your losses (if you stopped them in time) providing, of course, that every time you sustain a loss you calmly think over how you erred, and thus find the reason for

the loss. If you analyze the reason with the avowed purpose of ***not repeating the same mistake*** (*if possible*) — you will eventually become a success.

Analyze your failures. It is as essential to market trading as it is to medical science. Self-analysis is the proper procedure in all of life's varied activities — but in trading it is an essential prerequisite. From the standpoint of permanent successful operations your temporary failures can be more beneficial than your "chance" successes.

The margin question when subjected to "self-analysis" discloses that one is not "sold out" because of a narrow margin — *but because of neglect to sell (often at a profit) at the proper time. Over-trading and greediness are other reasons.* Ask yourself this question: What would have happened if instead of buying on margin he had paid outright for his stock. Would he have been financially "worth" more at the moment the broker sold him out? Obviously, the answer is no. True, he would have had his stocks — but he did receive the price of their value at the time the broker "sold him over the river".

The facts are that a stock purchased at $100 (paid in full) — which subsequently dropped to $50 has no $100 value — neither in the vault nor at the broker. It is worth only $50, or as much as one can sell it for in three minutes. At the time the broker sold him out because of "margin", he still had the identical value in his stock that it would have had were it locked up and fully paid for. *His troubles are a direct result of holding a stock in a down market and of over-trading his capital.*

Therefore, do not be afraid to buy on a conservative margin at the proper stage of the game. *It can never hurt you if you trade correctly.* Should your stock go against you — sell out at a small loss at the proper time. This is a much sounder practice than pathetically holding on until it has shrunk 50% or more.

Do not take it, however, that I encourage margin trading. Quite the contrary. At times one should trade with only 25% of his capital. But at other times full margin is permissible. The margin question is an integral part of the "time element" theory which you will study in a subsequent chapter — and which is the basic secret of successful trading. Trading profitably depends primarily on *when* you buy or sell. Trading on margin in a rising market is "good business".

Difficulties, though, are bound to come up when one trades on margin — on the upside — in a *declining market.* One has similar difficulties when trading in stocks which are fully paid for.

In the final analysis, margin means borrowed money. You borrow the "margin" on perfectly good security deposited with your broker. The security is the stock you purchase. The broker in turn secures the loan from his bank, or carries it himself if his financial condition permits. Undoubtedly you have had experience with bankers in negotiating loans for your every day business needs. What is your statement like? That is the first question the "money-changers" in modern "temples" ask. From the statement showing your assets and liabilities your banker will determine whether you need the loan for legitimate expansion of your business — or because you are in a "tight spot". You might have assumed that in the latter event the banker would come to your rescue, but that he will not encourage expansion if your business is already showing good profits. (Why try to bite off more than you can chew?)

In banking, however, it is quite the contrary. Your banker will loan you money providing you can do without it. Or, to quote one of my clients, "a banker will lend you an umbrella when the sun is shining only to ask for its return at the first sign of rain!" Should you actually be in need of cash and in difficulties, if you do not secure it, your bank will *not* help you. Bankers do not lend money when "risk" is extraordinary or the capital structure weak.

Most margin traders *very unwisely use the margin privilege as a part of their capital.* They trade on margin continually. From a basic business standpoint this policy is definitely unsound. *No banker will lend you money to be used as "capital" continually.*

The stock market is not a "mechanical game" — nor is it operated by a "robot". *In actuality it is a money mart operated for the sole purpose of making profits (for its members, managers, etc.)* Any contrary illusion will start you off on an erroneous assumption, and you will never get to first base. That some of us can foretell quite accurately how far the market will advance — or where it will stop — is not because of "crystal gazing" or because of "inside tips". *The technical condition of the market gives us the clue. Wall Street knows the public mentality only too well* — they know that a part of

the public will *not sell* their holdings even when there are *good profits* — but will just *sit and wait* for still greater profits. Greediness is the cause of their downfall. How many hides has a cow? A stock has technically only to accomplish its definite up move and then back it goes. There is little sense in holding a stock after it has reached its destination. *Prices usually come down until most of the over-margined accounts on brokers' books are sold out* — until most "stop-orders" are touched off — and until those with capital, brains and *foresight* get possession of the stock held by the *weak-margined* accounts and by the *weak of heart and mind.*

Therefore, I suggest the following practical procedure:

1. *Trade with borrowed money* (margin) only when there is little risk involved — *when the trend is definitely known — when you already have profits accumulated on your investment of principal.*
2. *Be on guard* at the first sign of a "topping" position in the market to reduce your holdings to *the amount of your principal.*
3. *Reduce your holdings (principal) as you notice weakness in the market.*
4. *Get out of the market when you feel uncertainty approaching.*
5. *Repurchase with part of your principal only when you feel more assurance.*
6. *Increase your trading as confidence grows.*
7. *Trade on margin only when you already show "paper" profits. Use the margin at your broker just as you would your credit at the bank. Do not abuse this privilege by using it as "capital" for trading — but only to further increase your profits at the opportune moment.*

* * * *

Take fast hold of instruction, let HER not go. Keep her, for she IS thy life.—— (The Proverbs.)

CHAPTER II

What "Time" Is It?

THERE are many classifications of stock purchasers and these include the individual who buys shares of the "gold mine" variety from a salesman. This book will not deal with that particular type. One should not buy shares for trading purposes unless *listed on a Stock Exchange.* There are plenty of *good issues* to be found there. Why then buy something you don't know anything about?

When purchasing securities listed on an Exchange you can dispose of them immediately — either at a profit or at a small loss. However, when buying unlisted stock you must search for a purchaser and frequently, just when you want to sell, there are no buyers and the price drops sharply. Trade only in stocks which you can sell in three minutes. Trade only in stocks which are listed on an Exchange under the supervision of the Securities and Exchange Commission. Unlisted shares can be bought for long-term investment after you have satisfied yourself as to their quality and prospects. *Do your trading in listed securities only.*

There are two motives for purchasing stock: (1) Investment for dividends (income); (2) price appreciation of the stock itself; (2a) for small profits by going in and out of the market — buying and selling at frequent intervals.

The principles, however, are the same. The man who buys for a substantial rise in the price of the stock should know when *time for selling* has come. Suppose he bought at 50 and the stock rose to 150, should he wait for 300 — or sell at 150? If he waits for 300 it may meantime go down to 50, or even lower. He may have to wait years before it will rise again to 150 or 300. Assuming that one is willing to hold on through a complete cycle of a Bull and Bear market — it certainly is nothing short of complete stupidity to permit two or three cycles to pass him by — or to trade without knowing whether we are in a Bull or Bear market.

This brings us to the "time element" theory. The Book of Ecclesiastes in the Bible speaks reverently of the time element. "... there is a time for war and a time for peace — *there is a time to plant and a time to pluck up that which is planted* ... a time to be born and a time to die ... *a time to keep and a time to cast away* ..." It takes 21 days to hatch a chick. A duck 28 days. The life span of a horse is 15 years. You are certainly not going to buy a 14 year old horse unless you are in the glue business. Neither will you marry a 70 year old woman if the raising of a family (and not her money) is your aim. The son of David, King of Jerusalem, knew that *there was a fixed time element for everyone and everything* ... Joseph, the first grain "accumulator" and trader (famed for his resistance to Potiphar's wife when she "cornered" him at the "Pit") understood the subtleties of the cycle theory. His interpretation of Pharaoh's dream, "the seven lean cows have eaten up the seven fat cows" — indicated this.

This is nothing more than the *cycle theory* (time element) of prosperity, famine and depression. (The bad years ate up the good years — how well we know this!) Because of our present advanced form of industrialization with its complex machinery, radio, telegraph, and airplanes the years and distances as measured by "Father Time" have been considerably narrowed. One can cram in more work and accomplishments in one day now than could have been done in months in the last century. My last trip to Egypt and from there to Russia took three weeks and four weeks respectively. In 1943 it is "being done" in from 16 to 24 hours.

The "time element" — the "cycle" or "action and reaction" theories — are as true today as they were in the days of Pharaoh. They set the market and the business world in motion everywhere. Hitler is losing the war because "time" is taking its toll. Even religion has its *time element.* In periods of depression, more people go to church than during periods of prosperity. In war time more babies are born to make up for youths killed in action.

Buying and selling stocks successfully is primarily a question of being "on the beam" with the time element. There are times when almost any stock or commodity purchased can produce a profit — and there are times when most securities on the Stock Exchange go down. Profits accrue only if you *buy and sell at the right time.*

Stocks which are "tuned" closer to the "time element" — due to their "technical condition" — advance farther than others (percentagewise) and, therefore, it is also important to know *what* to buy. (You will learn this particular feature of good trading practice in another chapter). The "what to buy" question also is basically a "when to buy" problem. The same group of stocks does not continually outstrip the others. The stock that was a good *"buy"* at a certain price level is a "sale" at a higher price level when the "time element" runs out. At times one group moves faster (percentagewise) because the "time element" — for example *war* — favors that group. Later on, the backward group — for example *peace* stocks become the leader. So "when" still remains the eternal problem. You can learn this *by studying conditions and observing closely market action.* "Tips" on "what" to buy will not help you if the "tip" is not "timed" properly. A stale "tip" — one that has already materialized and is far ahead in its travel with "time" — will do you great harm. And it is in the nature of "tips" to come at the end — after the meal is over. Those who originated the "tip" have most likely capitalized on it.

The "time element" is the guiding principle for all types of trading and investing. Even the investor (long-term trader) — who is willing to hold on to his stocks for two or three years (with no apparent reason for the time set) — can cut down the *time* considerably. This can be done by buying at the *proper time* — and selling at the *proper time.* To make hay you must have sunshine.

The intermediate swing trader who buys for a three or four months movement (with no reason for the time set by him) will benefit especially by knowing *when* to wind up the transaction. If he liquidates at the *right time* (and this has nothing to do with definite "dates") — he will have the wherewithal to buy again when prices are lower — and thereby place himself in a position to benefit from the next advance. If his capital is tied up in unsold or "frozen" securities — he has no alternative but to let the next procession go by, with him as a bystander "marking time" as an "involuntary" investor on the side lines.

The time element is also important to the man who trades "in-and-out" of the market. There are men especially adapted to fast trading

(mostly floor traders and members of the Exchange who pay no commission). In the morning they may watch the market, observe the trend, and if the "tape" indicates that the market will rise somewhat — they buy. Then they wait for the rise to spend itself — at which time they take profits. Thus, they take advantage of the *time element — the trend of the market.*

There are variations within the time element, depending on the type of trading you do. In buying stocks for the long pull (investor) you must have some broad idea of *general conditions* outside of the confines of the stock market. You must know whether production is on the up-grade, and whether the world political situation promises a period of calm or stress. Will taxes be high — will labor be restless? Will capitalism be attacked by reforms and by advocates of state socialism? Will Roosevelt run for a fourth, fifth and sixth term? The investor (long pull) should confine himself to the study of the economic and political trend. Daily or monthly fluctuations; technical market conditions, are of no consequence to him — as they do not clarify anything but the immediate or near future. In the case of the intermediate-trend trader, the situation is reversed. He is mainly preoccupied with events of close range. What will transpire years hence does not concern him now. He will adjust his sails to conditions as he is confronted with them. He may even gain during unstable periods by selling "capitalism" short. He can profit by trading on the short side on the assumption that Roosevelt will be re-elected for the fourth term. (And so it may come to pass).

The "time element" is the "period" of weeks (minor) — months (intermediate) — or years (major trend) in which *stocks advance or decline.* To be more thoroughly convinced as to the importance of the "time element" — glance through a chart dealing with the Dow-Jones Averages. Notice that stocks are always in a race with "time". They rarely stand still — either they go up when down — or down when up. Note also that most individual stocks follow the movement of the Dow-Jones Averages. When the Averages are down — so are most stocks, and vice versa. You can plainly see the unreliability of "tips" on picked stocks if not properly timed. Their fate is at most times wound up with the *entire market.* And the market as a whole is tied up with the *time element.* The time element is controlled by

political and economic conditions, by presidents, kings and dictators, by law-making bodies, by labor, etc.

There are variations in the behavior of individual issues while the market executes a move. Only those stocks whose "period" is in harmony with the *"time element"* go up. Others stand still — are unproductive — or go backward. Later, the question *what to buy* will be discussed in detail. Of major importance, however, is the problem *when to buy*. That settled, the selection of stocks for the rise can be placed on the agenda. Only then can a "tip" be of some value.

The difference in the quality of a stock in an up-trend market is one of percentages. Practically *all* rise in a major up-trend market. A good stock may go up 10% in a given period. (Figured by percentages on cost and not by gain in points). A medium stock may rise 7% during the same interval. A poor stock may rise only 3%. *Your chances of loss in an up-trend market are negligible. In a down-trend market, however, there is danger ahead even if you bought the "very best".* Just as all stocks go up during an up-trend — *all* stocks go down in a down market (more or less).

* * * *

For wisdom IS better than rubies; and all the things that may be desired are not to be compared to it.
I, wisdom, dwell with prudence, and find out knowledge of witty inventions.

Counsel IS mine, and sound wisdom. I AM understanding; I have strength.

Riches and honour ARE with me; YEA, durable riches and righteousness.

That I may cause those that love me to inherit substance; and I will fill their treasures.—— (The Proverbs.)

CHAPTER III

Supply and Demand

"THE proof of the pudding is in the eating". Similarly, the proof of the market's rising *is in its going up* — and the proof of its declining *is in its going down.* The proof of a good stock *is in its going up or resisting decline. The proof of a bad stock is in its going down or its refusal to advance appreciably.* Rather "simple" so far — but very basic indeed.

Regardless of their indivdual merit, all *forecasting* (by good advisory services) is based on *supply and demand.* There are few unknown factors in the market to those who have the patience to search for the facts. Prices go up when demand for stocks exceeds the available supply at that price level; prices cannot rise if there is still a supply at the old level. Prices will drop and go lower (Chrysler sold at $7.00 a share in 1932 and U. S. Steel at $22.00 a share) — until there are no more sellers at the then prevailing levels. When selling pressure evaporates and demand increases — prices must rise. The buyer will have to pay the "asked" instead of the "bid" price. The "asked" is always higher than the "bid". When the potential seller notices that there were no compromises necessary in the price range — and "asked" prices were paid by the buyer — his "asked" price is advanced farther. When the "asked" price continues to increase, — prices are going up.

Supply and demand (the "time element" theory — a time to buy when low — a time to sell when high) is the basis for all forecasting of market movements. Supply and demand *is measured by the Averages and by other methods designed by market analysts.* If the Dow-Jones Averages go up — we say there is "demand" for stocks; and if the Averages go down — we say the market encountered "supply".

There is a law in Physics to the effect that water seeks its own level. That is the reason why the best indications of a "sold-out" market (after a decline) are 300,000-share trading days. When a small turnover of shares is in progress and prices remain stationary within a

narrow range — it is usually a sign that prices will soon move forward. An *accumulation period* (1) is at hand. The next move will be (2) the *marking up* in preparation for (3) *distribution* at considerably higher prices. This movement from (1) to (3) and back to dull markets and (1) again usually consumes a few years. No need for "rushing" then.

I do not know what your opinion is regarding how and where advisory services (like my own) obtain their "dope". I have met people who were convinced that advisory services get "tips" from Wall Street as one might on a race horse from the jockey or trainer, or his "best friend". Would it be to Wall Street's interest to let anyone know what "they" intend to do? Some advisory services claim that they get their "inspiration" from "reading" the stars — but let me assure you that they are market technicians — otherwise the stars would stand no "reading". The varied forecasts made by Economists in the field of business forecasting are also based on the "time element", as expressed in the cycle theory — or by the "time element" as expressed by *supply and demand,* and by other known factors.

What is a business barometer? Whether it is Barron's Weekly, the New York Times, the Federal Reserve Bank, the Cleveland Trust Company, the National City Bank, or any other — it is the *published facts of supply and demand* as expressed in the volume of steel production, number of freight cars loaded, orders for locomotives, amount of payrolls, amount of checks cleared, bank savings, money in circulation, electricity consumed, quantity of lumber cut, automobiles produced, etc., etc. A sound Economist bases his forecasts on a barometer that expresses "supply and demand" in various fields of endeavor.

I need not tell you that it is a hard and fast principle *never to argue* with a business barometer — *nor with stock market action.*

You will be making a serious error if you attribute success in the market to "genius". Jesse Livermore was the greatest "boy plunger", but when the markets changed their "habits" — and he did not — he could not make a "come back". The auto racer of whom it was told (by his widow) that the "road turned but he did not" — could

corroborate the importance of "following" the road. If one has been successful it is because he has learned to trade *with the time element — with the tide* — taking the easiest road instead of "bucking the trend".

Moses apparently had that sense of *time*. He knew when the sea would rise and fall. That must account for the "miracle" when he led the Hebrews across the "dry" sea. The Egyptians, too, rushed into the Sea, but at the *wrong time*, just when the tide was swelling — and the Bible records that there remained not a solitary survivor.

The shrewd trader watches the tide and even the small ripples. He takes full advantage of contemporary history and conducts his trading in harmony with the political trend and economic tide. He observes economic and political trends closely. When everybody is flushed to the brim with prosperity, he makes plans to get off the road. The road is becoming too "easy" to reach. When gloom prevails, he quietly "accumulates" stock at low prices. *Your judgment* can be as good as the rest — and very likely much better. No one has a patent or monopoly on clear thinking, but it is essential that you keep your ear to the ground and stop "hoping" for a good "tip" or a piece of "good luck".

Bull and Bear markets — depression and prosperity — war and peace — feast and famine — result mainly from the mental processes of the people engaged in labor, farming, industry, commerce and government.

It is recorded in the Bible that "good times" often turned peoples' heads, prompting them to do as they pleased — encouraging the worship of the "golden calf". This, it is said, brought catastrophe upon our ancestors. Too much leisure and over-indulgence softens people. They refuse to work hard. Strikes are plentiful. "Service" is extremely poor. Bad times are the result. (Look at what happened in France). This is inevitable since business, industry and the State under such conditions are abused by politicians and neglected by the people at large. (The theory of action and reaction).

Nature knows of only one remedy for over-speculation and over-expansion, and that is contraction. After sunshine comes rain. After over-eating comes constipation and castor oil. When bad times come,

as a result of previous abuses, people learn to live on less, work harder, give more and better service, and consume less. And what is more important — they begin again to use their innate thinking faculties. These were lulled to sleep during the prosperity period by the good things of life. (Why exert your brain in "thinking" when money comes easy? Does a rich man's son have to think? Is not the "catering" a beautiful woman receives responsible for the popular expression "beautiful and dumb?")

But now savings are again being accumulated. Inventories are reduced. The unfit find it more and more difficult to survive and have to be taken care of by government doles (or projects) in ever-growing numbers. People with the natural urge to build begin planning for another prosperity — accounting for the manner in which prosperity and depression cycles repeat themselves. *The stock market tells months in advance that prosperity is at an end by refusing to go higher.* The stock market is the *real* prophet because it expresses collective instead of individual opinion. When this occurs, the handwriting is on the wall — the decline in market prices and *eventually of business itself.* Shrewd and wise men act accordingly. They realize on the paper profits and "accumulate" cash. Permanent and consecutive success in the market is primarily the result of knowing *when* to accumulate *stocks* — *when* to take *profits* and accumulate *cash* — and when again to accumulate stocks.

Ignoring the message of the market when a Bull movement is at its height can be disastrous. "Paper" profits are wiped out and frequently factory inventories and cash resources, too. One must adjust himself accordingly by reducing inventories of securities and merchandise and converting them into liquid cash. The advantages can then be utilized at the bottom of the Bear market for the purchase of greater quantities of securities and raw materials to the extent of cash which you accumulated at the top of the Bull market. Buying stocks is like buying merchandise. Only by purchasing materials, merchandise and stocks at low prices and selling at higher prices than that which you paid can you make a profit.

"High" and "Low" prices, however, are "relative" in terms of *dollars.* When money itself depreciates in value — or when commodities and merchandise are scarce — prices go up. The value of

the *dollar* (the purchasing medium) as such has depreciated when commodities are bid up — when it takes more dollars to secure the same quantities of commodities. A full-sized book can be written (and many have been) on just this subject of "inflation". No sense repeating here.

The "time element" is also of importance in being able to distinguish between an intermediate reaction in a Bull market and the beginning of a Bear market. If what you regard as a Bull market manifests itself over a period of five or six months and a reaction sets in — you need not as a general rule fear that this is the beginning of a Bear market. The Bull market at such a time is still in its infancy — not having exhausted its possibilities nor acquired enough "sins" to require prolonged ailment. On the other hand — if a Bull market lasts four or five years any corrective intermediate reaction can be the beginning of a Bear market; as the Bull market is old enough, and in most cases has developed enough ailments (in over-valued stocks) to require prolonged adjustments, revaluation and deflation. The Bull may have lost its vitality — and once he stops "clicking" the butcher is his destination.

* * * *

Give INSTRUCTION to a wise man, and he will be yet wiser; teach a just man, and he will increase in learning.
—— (The Proverbs.)

CHAPTER IV

Gambling vs: Investing / Speculating

COMMON stocks are bought: (A) because of expectant appreciation in the value of the stock itself (due to prospects of better business and increased earnings); (B) because of dividends being paid or expected to be paid. While preferred stocks and bonds have a set dividend or income through interest — common stocks do not. Nevertheless, the *prospects* for income through dividends on common stocks are at times greater than those of the preferred stocks and bonds. Practically all that is left in the way of profits — after payment of the set dividend on the preferred, and the interest on bonds — *can be allotted* to the common should the management so decide.

Not all common stocks pay dividends continually. U. S. Steel and Radio — leaders on the Stock Exchange — paid no dividends for many years. Within the last eleven years (not mentioning 1928-29 when prices were much higher) the price of U. S. Steel varied from 21¼ to 126 . . . Radio varied from 2½ to 14¼. The motive for the extreme prices on the two stocks, which in the case of Radio and Steel amounted to 600%, was the expectant dividend. Otherwise, the stock was not worth any more (from a dividend standpoint) at one-sixth than when it sold at top price.

No common stock has any other value — even if it does have a book value — than that which the buyer places upon it by being willing to part with his cash in exchange for the stock. *Resale price constitutes its only value.* This is where the New York Stock Exchange comes in. It is the market place for stocks, and one can usually find buyers there. You may have to sell for less — but you do find a buyer. The price which you will be paid for your stock is governed primarily by the *time element* which takes in the *condition of the company, conditions in this country and the world at large, and the expectation of a dividend.* (In 1937 the time element on U. S. Steel

was 126. In 1932 the time element was worth only 21). All these are summed up — (A) in the probability of re-selling at higher prices and, therefore, a *demand* for stocks; and (B) in the possibility of having to sell at lower prices with *supply* predominating.

There are three outstanding classifications of common stocks listed on the New York Stock Exchange. (1) Those which pay dividends year in and year out — purchased primarily by investors for income purposes; (2) those which do not pay dividends and are purchased by traders for speculative purposes — one is called an *investment* and the other a *speculative* stock; (3) those paying dividends only during prosperity periods — consequently, the prospects for dividends are irregular. The latter are called semi-investment or semi-speculative. This does not mean that investment stocks are not speculative in character. General Motors, Sears Roebuck, U. S. Steel and others are purchased by investors for investment purposes and by speculators for trading purposes. When dividends are paid on stocks regularly they are naturally preferred for investment by trusts and foundations because of the steady income. Professional traders rarely buy for the sake of dividends, but for price appreciation. They are never certain as to whether they will hold that particular stock when dividend day comes around. They want prices to go up sharply, but as most investment stocks are bought by "good" people — investment trusts, banks, etc., who know values — professionals find a more lucrative field among speculative issues which are mostly purchased by the public at large who know little about "over-valued"' and "under-valued" stocks. Speculative stocks and "cats and dogs" can be pushed up much higher percentagewise than investment stocks. Investment trusts who are for the most part holding dividend paying stocks of an investment nature — dispose of investment stocks as soon as the price of the stock is "over-valued" in relation to earnings and dividends. Supply thus created checks "over-valued" prices.

The value of common stocks is not always determined by a set price-earnings ratio. In normal times, when a stock has a fifteen times price-earnings ratio, it is considered reasonable. In war times, earnings are frequently paid for on a five-to-one ratio only. The formula of "price-earnings ratio" differs considerably at various periods and in various industries.

As a trader your principal interest in stocks should not be dividends but *appreciation possibilities.* Am. Tel. & Tel. pays a $9.00 dividend when the stock is 160 or more, and also when the stock is 103. If you bought the stock at 160 because of the $9.00 dividend, you are still "out" $48.00 at 103 – in spite of the dividend received. (This from a trader's standpoint).

Buy because you expect to sell at higher prices – sell if you think that the market will go down, thereby, (1) affording you the possibility of replacing stocks when the same capital will buy a greater quantity of the same shares; and (2) cashing the "paper" profits accrued with which you can buy more stocks – thus increasing your trading capital. You can see that it is a "double or nothing" game. "Double" when you sell at the right time – "nothing" when you neglect the important function of selling.

Not all stocks are set in motion at the same time. While the market as a whole moves in a certain harmony – like a well-tuned symphony – some groups move ahead of others – and at times a specific group moves against the trend. By groups, I mean a classification according to industry, such as Oil, Steel, Rails, Aviation, Utilities, etc.

There are times when copper is more in demand than steel, and vice versa. There are times when farm equipment (tractors, farm machinery) and mail order groups – which depend on farm population – are in a better "position" than department stores which depend on city dwellers. The prosperity of the farm group is contingent upon the prosperity of the farmer. If there is a demand for crops and farmers make money, they will buy equipment (tractors, etc.) They will also order household necessities from mail order houses. The price of common stocks of groups dealing in farm equipment and household necessities, therefore, is "tuned" and "timed" to the prosperity of the farm community. The farm equipment and mail order stocks will be leading the advance if farm community prosperity is in the offing. As favorable sentiment is created other groups will follow in sympathy.

At one time or another some industrial, railroad or utility group moves to the fore in the prospect or actuality of higher earnings. These stocks then go up. Beginning with the month of October, 1937,

and throughout 1938-39, for instance, the Aviation group performed better than others due to the fact that war rumors and orders on hand made the outlook very favorable. From October, 1937 to March, 1938, Boeing rose from a low of 16 to 37, acting better than most stocks. Simultaneously, United Aircraft advanced from a low of 10 to 26 — this at a time when the entire market moved downward, the Averages dropping from 117 to 98. On the other hand, the very same Aviation group reached its "maximum" (and probably "maturity" period) in April, 1940 — and was in a down trend part of 1940 and 1941. The war period of 1942-43 did not help aviation manufacturing stock very much because the market had already discounted that prospect (war) in 1938-39. Unless new prospects for aviation are anticipated after the war — for freight transportation and globe-trotting — aviation manufacturing stocks will not make much headway. The outlook for stocks of rails and water transportation after the war depends directly on the extent to which aviation will serve as passenger and freight carrier.

I believe I have presented a good example in order to make my point clear. While most stocks follow the general direction of the market — it is up to you as a trader to find the *group in the best possible "time element" to advance.* You can ascertain this from the action of the market itself. (Barron's weekly lists the action of groups percentagewise. It is wise to study and chart these figures).

When for a number of weeks in succession you observe that the Aviation group, for example, presents a strong resistance to decline — while other groups go down — it should indicate to you that Aviations will move up higher and more rapidly percentagewise than others — when the up move begins. *It is in this group that you should buy.* Rails, for example, performed better than other groups during the January-February, 1941 decline. Therefore, they went higher percentagewise when the advance began. The 1943 good market on Rails was foretold by "market action" in 1941. (I suggest that you read Barron's Weekly regularly. Statistical information on market behavior crams its pages.)

Now, let us go a step further. Upon investigation of that particular group which *held its own* — you will find *certain stocks* which performed better percentagewise than others in the same group. *Favor*

those stocks when making purchases. Atchison, for instance, dropped less than other stocks in February, 1941. On February 19, it advanced in a declining market. Therefore, it was a better stock. (Around that time when Atchison was 20 I predicted that it would come up to 75). In July, 1943, Atchison was 68 — an advance of over 300%.

This brings us to another fallacy on the part of the public in so often buying a stock just because it is "cheap". There may be "logic" in such reasoning — but only on first impression. Obviously, when you buy something of the same intrinsic value for less money, it is a "bargain". Wall Street, however, is no bargain counter — you pay neither more nor less than stocks are "worth" at the moment — and in the final analysis *stocks are "worth" only what you can sell them for.* Buy a stock, not because it is "cheap" now, but for the potential rise that is in it. The "cheap" stock can remain around its "cheap" level all through a market advance. You may find your capital "frozen".

If one cannot profit by trading in the highest grade issues — one certainly cannot profit by trading in "cats and dogs". If our industrial giants cannot advance — what prospects are there in the stability of others? Although this sounds logical there are exceptions, and the "time element" has much to do with the selection.

At the top of a Bull market, when uncertain as to whether the upward movement is exhausting itself or not, it is comparatively safer to have your money in investment, rather than speculative, issues. *Of course, it is most advisable to be out of the market entirely at such periods.* Investment stocks are not the leaders in a Bear movement and, therefore, it is safer to have your money invested in this category — and to watch the market closely. If the speculative and "cheap" stocks begin to decline — you can still dispose of your investment issues without much loss — as they *follow* rather than lead the Bear movement. Likewise, when you note that investment stocks stand still — and "cats and dogs" or even the better grade issues advance — it should put you on your guard as the market may be "topping" and in line for a good reaction. The 1937 Bear market was foretold by investment stocks in November, 1936. They refused to go higher.

At the end of a Bear market and at the beginning of a Bull market, the reverse is true. More money can be made percentagewise by in-

vesting in "cheap" stocks than in "good" stocks. The reasons are obvious:

(a) "Cheap" stocks drop percentagewise more than "good" stocks and, consequently, are due for a greater rebound (percentagewise) when the market advances; (b) the public entering the market is a considerable factor. They usualy give "cheap", low-priced stocks preference. This *demand on the part of the public* (not its brain power, heaven forbid) brings low-priced issues, regardless of their intrinsic value, up to a higher peak (percentagewise on money invested) than stable stocks — and it is *demand* (as you know by now) which brings stocks up. (The vital economic factor "demand" does not discriminate between "wise" and "foolish" money. Like a mule, it responds to whoever prods it); (c) "good" stocks do not decline as sharply at the end of a Bear market — under adversity they hold their own better — and some even move ahead of the entire market (thereby giving the signal for a general move up) and so cannot advance much farther than they were at the end of a Bear market and the beginning of a Bull market. They must await the advance of other units of the "army" to their approximate level (percentagewise).

At such a period it is advisable to purchase "cheap" and low-priced issues for the fast profits which come during the first good advance. A 1-point advance on a $5 stock is a 20% gain. A 1-point advance on a $30 stock is a gain of a little over 3%.

But remember, it is also advisable to sell these "cheap" stocks as soon as the market has made a good advance — and at the first opportunity (of a correction) switch to better grade issues which really have some economic basis for better earnings. *Do not hold on to "cheap" stocks too long as a shake-out or reaction drops them percentagewise farther than stable stocks.* During an upward movement stocks and groups are continually being rotated in an upward spiral for participation in the advance. If you can catch that "spoke" in the wheel which is in its upward stroke — ride with it until it begins its downward move. The entire wheel — the stock market — can be moving upward and still do you no good if you are holding on to a downward "spoke" (stock). You will have to wait for a complete new revolution of the wheel.

The best policy is to trade only in a few stocks — and to study their habits and characteristics thoroughly. Do not jump all over the board from one stock to another until you have learned the habits of many stocks. Stocks are like a wife's relations — after you know them you will find they have their good and bad traits. "The devil you know is better than the devil you do not know". Therefore, trade in as few stocks as possible — not more than one or two leaders in a group. In time you will learn to judge the habits of a stock by its chart and pick those whose habits and style suit yours.

Stocks move in certain but varied formations year after year. Let us illustrate by assuming that Steel has made an advance of ten percent. Often, it is advisable to get out of Steel right then and there taking profits, and buying in another group which has not yet moved up. While Steel and other leaders are consolidating their positions — and remain more or less stationary (or even reactionary) — a secondary wave of stocks will be brought up by another group of "operators" and traders. The opportunity comes when certain economic factors — real or speculative — "true or false" — act as a "reason" for the up move. It is then advantageous to trade in the second line of securities rather than holding on to Steel without moving forward. The "wheel and spoke" example is typical of the market, as a whole. Every spoke in the wheel will advance forward when circumstances are most favorable for that particular group. Other groups will mark time until they get on the "front page" with favorable comment. The market in this respect can also be compared to an army at war. It moves its best shock troops up first — those which are in the limelight at the moment — then follows with other units (even with its K.P.) so as to consolidate its position. Like military battles, *the market must be studied in its entirety* by you generals and not by isolated victories and defeats. *If action is what you desire — watch the advance shock troops.* Manage to trade in them when they are in the front lines, and not when resting in the rear. Change groups and stocks like a general changes troops that are exhausted and need rest.

Some people prefer to distribute their money blindly among as many stocks as possible "hoping" that most will go up while some will go down; that "somehow" they will come out on top. This, of course,

is much better than having your entire fortune in one or two stocks. However, when a trader diversifies his holdings without reason, he expresses fear of his own opinion (much like a gambler's misgivings). One should not purchase securities unless convinced at the time of buying that it is the *right time to buy.* Once convinced, our trader should diversify his holdings *amongst the best stocks in the best groups* which give indications of moving ahead of other stocks and groups as far as the "time element" is concerned. Should he find soon after that he was mistaken — that one or two other groups moved more rapidly or ahead of time (and the best of us cannot hold the time element by its tail) — he should freely admit poor judgment — make peace with his ego and his enemy *pride* — and try again among those groups in which the move is soon to be.

The safest and wisest course is to have only 20% of your capital in one stock and group. Ten or fifteen percent of your capital is even wiser. Blind diversification, however, shows lack of knowledge and confidence — and *one must not trade unless one has the situation more or less in hand (or head). Trading should be organized in very much the same manner as your business or profession. Acquire the self-confidence that comes through knowledge and then "run" your trading intelligently — otherwise it may "ruin" your chances.*

While on the subject of which stocks to purchase, I wish to stress that you must not buy a stock merely because the dividend date is drawing near. It is common knowledge that stocks which are "ex-dividend" sell off in exact proportion to the payment. Neither should purchases be made on the strength of *dividends already paid* — but on *appreciation* value based on *earning prospects* and *the ability to pay future dividends.* Stocks will appreciate or depreciate regardless of the dividends they have paid. A "good" stock — one raring to go — will absorb its dividend in about three days after "ex-dividend". Watch for these symptoms of "market action". *The prospects for a dividend on a non-dividend stock produces much greater price appreciation than a larger dividend on a dividend record stock.* (In life, too, the pleasures of anticipation or pursuit are always greater than the achievement). Remember, you are *dealing in stocks and not in dividends.* If you are interested in the latter, *you belong to the category of investors,* and you should buy holdings of an investment nature

and "salt" them away. *But you should not trade in them. My advice* (to you as a prospective trader) *is to forget about dividends. Your object is price appreciation.* Your studies should be confined to those economic, political and technical (marketwise) elements which control price changes.

Stocks have certain definite shapes and patterns of their own. Some move rapidly up or down in vertical formations. (This refers to pattern arrangements on charts, discussed later on). Others move slowly and more or less horizontally. Before buying you should know the stock's characteristics and how it moves. Some jump points at a time up or down; — others creep slowly, moving one-eight or one-quarter point at a time. *These tendencies in individual stocks must be studied by you beforehand.* There are no two stocks alike in *action.* If you love horses you know what I mean. You can make the horse *you know* do your bidding. So it is with stocks. But you must know the manner of action of the stock in which you are trading. *Only a chart can disclose that feature.*

Stocks having a very large issue — as for example, U. S. Steel or General Motors — usually move ⅛ or ¼ point at a time. These are the best stocks to study. They are not erratic and lend themselves to analysis — (a drop of ⅛ point on Steel very often foretells a 3½ point drop). Stocks having a small issue may fluctuate a point or more in one spurt. *Before buying a stock you must know something about its mobility,* and the way to find this out is to *keep its record on a chart. This will show you just how it moves.* A drop of three points in Crucible is of no significance technically. A similar drop in General Motors is of prime importance. Crucible can out-distance U. S. Steel both ways — up and down. The price of the stock is not the criterion.

* * * *

The way of a fool IS right in his own eyes: but he that hearkeneth unto counsel IS wise.— (The Proverbs)

CHAPTER V

"Big Shots" and "Fish"

AMONG the millions of people trading in stocks there are executives of large banks and corporations, financial tycoons, prominent lawyers and politicians, diplomats, labor leaders, dictators, democratic presidents, army generals, Congressmen and Senators, mayors, priests, ministers, rabbis and heads of departments (my own clientele could almost substantiate my statement) who *represent the foremost intelligence from an industrial, political, financial and economic standpoint.* Although they do their thinking individually (and in the seclusion of their private offices) these people *act as a collective body* after assimilating the facts before them. *They represent all the knowledge of industry, politics and capital throughout the world.* (Call it the collective mind, if you will).

The price of U. S. Steel, Common, for instance, is governed greatly by the percentage of plant operation to capacity and by prospective earnings. Those traders, officials, etc., who have access to information (which will make the financial headlines) before it reaches the public, certainly take full advantage of their knowledge — either by purchasing or disposing of stocks. They figure correctly that should the information they possess become known — the price of stocks will change either up or down. (You would do likewise).

The price of any stock on the market is, in the final analysis, governed by *future earnings* or by its anticipation — "true or false". *Supply* increases when the prospects for earnings are weak. *Demand* increases when the prospects for future earnings are enhanced. The public has only one way to find out about the future earnings and conditions of any corporation — and that is *by the statement issued — when issued.* That statement, however, (whether good or bad) can have no great effect on the price of the stock for two reasons:

(a) The insiders in that corporation and their friends knew months in advance what the statement would reveal. How? Because they know the sales of the corporation from day to day, and they also know

its operating expenses. In every industry there is a definite ratio of profits to sales. Some plants must operate 80% of capacity to show profits; others can do it at 50%. The officers and insiders — noticing sales dropping or advancing, can pretty well estimate the value of the stock three months hence — so they "discount" *now* the statement which will appear *then.*

(b) Large investment trusts, banks and major investors obtain information as to the utilized operating capacity, sales and expenses of every major corporation in the country. (This information is not available to the public for the reason that all *good* things are available only to the few). They calculate in advance the statement of any particular company as of months hence. They buy or sell stocks accordingly. This is one way how the stock market "knows" everything in advance. By the time you see the earnings of the company on the tape or in the newspapers — it can be entirely outdated as a criterion in the present worth of the stock. The situation can frequently be reversed. Orders have increased or decreased — future earning prospects are either enhanced or reduced — and the stock acts contrary to what you would expect it to do by the published statement. If the statement is a poor one — the public sells. "They", on the other hand, being more intimate with conditions and, if they have improved, "keep the bag open". Or again — the public on the strength of the good statement buys — whereas "they", knowing that such a statement is no indication of the company's present condition — unload.

To come to the point — there are many people trading in the market who by virtue of the positions they hold receive advance information of a political or economic nature which eventually brings stocks up or down. Here is where *"market action"* is of great advantage. If you learn to study the story it tells, you will note that "they" (having advance information) are either selling or buying stocks. *The proper thing is to go along with them. Do what they do — do not buck the market.* Then your operations have a better chance of being successful.

When you have learned to observe not only price fluctuations — but the power and force behind them — you will be able to tell when there is *selling going on* — even though it *may appear as buying.*

In such event, the trained trader sells. He does not buy, but disposes of his long stocks. Large operators and investment trusts can conceal their operations from the public, but not from the man trained in market theory and practice. *Your best guide is the market itself after you have learned to understand its action.* Through practice and in time it will even inform you in advance as to future earning power of corporations.

Whether you will make or lose money in the market will depend on how you interpret a market movement. The way in which you interpret that movement is of prime concern to profits. Should your interpretation go "haywire" — how quickly will your mentality, nerve and training enable you go into reverse and stop your losses? *This is most important.* We all make mistakes every now and then. There is nothing wrong in that. If you can hold your mistakes down to 20% or even 40% of your trades, you are a success. To *stick* to your mistakes just because "I said so" is like fighting wind-mills. That might suit a Don Quixote — but not a good trader. *Swim with the stream and not against it and you will arrive faster and unexhausted.* Aim to have a "tail wind" in your favor.

While in your home, office or factory you are "boss" (and at that, how many times could you have been ahead had you listened to some of your wife's advice or that of your staff), in the market *you* are *not* boss. *You cannot fight the market — you must follow it* humbly and patiently. Your previous opinion must at times be reversed and *you should be proud of your courage to do so.* Your wife may forgive your obstinacy — your staff may have to "take it or leave it" — but the market never does. *Let no one know about your "mistakes" and you will have the courage to reverse when wrong.* If others know about your commitments you may (unconsciously) have to live up to previously expressed opinions just to prove to "them" that you are a "big shot". Your pride may be at stake. Marketwise "pride" is a liability instead of an asset. Your "opinions" may have been correct but not "timely". It may apply to "yesterday" or "today" — but it is the "future" that counts. It is not what *you* think that makes the wheels go round. To guess correctly what "they" and "others" thinks is what matters. Do not look

for the logical. You may be logically "right" and practically "wrong". Just aim to understand what is actually going on — and like "My Country, right or wrong . . ." — just endeavor to *understand.*

* * * *

Chart studies of "supply and demand" — or the thousand and one "theories" under which the inferences drawn from "supply and demand" are concealed — are derived simply from fluctuations of *price and volume. Volume fluctuations are relatively more important than price changes.* Prices can at times be raised or lowered on small volume without affecting *real* values as applied to remaining stock. You may find buyers for 500 shares of Chrysler at 85. Can you find buyers for 10,000 shares at 85? You can still sell some stock to a few ignoramuses — can you sell a lot of stock to "wise money?" *A continual increase of volume must eventually change prices* depending on whether stocks are offered or bid for. *Reliable* advisory services which send their "confidential" analysis to you arrive at their conclusions primarily from a study of volume and price fluctuations (supply and demand).

The market (by its very action) *constantly creates supply and demand levels at various price ranges.* For instance: If General Motors at 35 refuses to go lower — it encourages buying on the part of Bulls. They figure that if General Motors does not want to go down — then it must go up as soon as stronger demand develops. The very decision of "speculators" to buy at that critical moment helps to advance prices. Every buyer "at market" pays the "asked" instead of the "bid" price. The "asked" and "bid" are continually and gradually advanced as demand increases. If "buying" continues up to 38 then it is most likely (at that price range) to be met with "selling" by two classes of traders: (A) those who bought at 35 for a two or three point profit and are cashing profits and thereby creating supply; (B) those who purchased at the wrong time on previous market sessions paying around 38, and are now willing to call it square "fearing" that what the stock did once (go down to 35), it may very well do again. These are the "impatient patients". They have been patiently waiting for the price to rise to the level which they paid — but when the long awaited opportunity came they had no market training or foresight to see that a further advance must

come (usually that is the case) — but rushed to sell in order to break even.

Thus, as I have said, the market *creates new supply and demand levels at all times as it advances and recedes.* If you "follow" a stock on a chart (and not in memory) you will in time be able to "see" these "supply depots" (and also look inside and see how much is packed in the warehouse) — and sell your stock a little ahead of the "supply" waiting for it. Do not be piggish by insisting on the last eighth, because *once a stock reaches a supply zone the weight of the supply can bring it down much lower than the ceiling of the supply zone.* The law of action and reaction — the swing of the pendulum — then comes into play.

To be perfectly accurate, it is more than a mere question of *natural* supply and demand. Primarily, it is a question of *where* stocks are "nesting" — whether in *weak hands of margined accounts,* potential sellers (the public), or in the vaults of the "wise men of the Street" — good traders and investors.

I should like to present a concrete comparison based on the ABC of Economics. Fish is cheap when there is a considerable quantity at the fish dealers (and not in the lake). Fish is expensive when there is very little at the fish dealers (although there are millions of them in the lake). There is in this simile as obvious an illustration of the law of "supply and demand" as I can present. Apply this basic principle of Economics to a stock and it makes no sense. The number of *outstanding shares (of any stock traded) neither increases nor decreases* daily, weekly or yearly. And yet, they are now one price and now another. Why?

For the purpose of illustration, a case in point is the market session of October 19, 1937. Stocks crashed that morning by ten points or more. However, by two or three o'clock of that same day *these identical stocks* were up to their previous prices. *Was this the result of genuine and natural supply and demand? Were there more shares outstanding at 10:00 A.M. than there were at 2:00 P.M.?* Were there any basic economic reasons for the violent price changes down and up again in one trading session? Was there any sound commercial, business or political reason why, for example, Nash shares should drop to $5 in the morning only to go back to $10 in

the afternoon? Between the hours of 10:00 A.M. and 2:00 P.M. there *was no natural reason for supply to be greater than demand.* Neither were there more shares (of any corporation) at 10:00 A.M. than there were at 2:00 P.M. Neither did anything (bad) unforeseen "happen" at 10:00 A.M. — nor anything (good) unforeseen "happen" at 2:00 P.M.

At 10:00 A.M. stocks were *in weak hands* which could not hold on — *either because of margin impairment or fear.* By 2:00 P.M. most of the margin accounts and the "fear-possessed" *had sold out to stronger men and to good traders.* The "floating supply" over-hanging the market at 10:00 A.M. disappeared by 2:00 P.M. The clouds full of vapor at 10:00 A.M. had cast the rain — by 2:00 P.M. there were no more clouds. The storm had subsided. By that time the stock was resting in vaults, not to be disturbed for months or years to come, unless at a good profit. ("Accumulation" is the lingo for it). In 1943 these Nash stocks sold at $15.

If you buy when prices are up and the market is booming — you can assume that sooner or later the "floating supply" will be in weak hands and *potential sales* should be anticipated. On the other hand, when you buy after a "break" you can assume (in relation to the break) that stocks (floating supply) are in strong hands — not to be shaken out easily. These financially-strong buyers (accumulators) will soon bring stocks up (mark-up period) if by no other method than *withholding* "supply" (except at higher prices). For one thing, the broker cannot "force" them to sell because they do not use "margin". Plenty of fish in the lake — but very little for sale at the fish market. So — you are in good company. Hold on to them — travel *with them.*

If you observe price changes only, you see nothing, know nothing, deduce nothing because for every buyer there is a seller — and for every seller there is a buyer. How can one tell if stocks are "bought", "sold", "supported", "tested" or "shorted?" You will be unable to judge from price changes alone whether the *motive* and plan was a sale or a purchase. But once you have begun to *study volume and its implications* — character of trading and what it tells — the road ahead is clearer. However, conclusive deductions cannot be drawn

from a single session of the market — nor from several sessions — because the activity may be purely "technical" or even artificial. *But prices charted on paper for months or years tell the story* you need to know. Your problem is to be able to "read" what the charts tell.

If an operator (an investment trust, etc.), for instance, wishes to accumulate 100,000 shares of General Motors — it is to his benefit (and a part of his plan) not to disclose his purpose to any one. He must keep his plan a secret. The moment the public or other operators discover there is some one who is anxious to purchase 100,000 shares, the price would go up. Consequently, he does not bid for stocks but takes what is offered (or only part of it) at a predetermined range of prices on a scale up and on a scale down. He may even do some selling because if stocks are "hard to buy" prices will go up. This gives the market a "weak face" for the time being and lets loose some stock which the operator "accumulates".

Conversely, when actual selling is in progress, it may be made to appear that there is buying going on (sometimes in other stocks used as a "smoke screen"). An operator who wishes to dispose of, say 50,000 shares, because he believes prices will be lower some time hence does not dump 50,000 shares at one time. Such action would not induce (or should I say seduce) buyers. Instead he works out a *progressive selling campaign* ("distribution" in the stock market lingo) making his stock (or other leaders) appear as strong as possible under the circumstances. Once unloaded, a sharp drop in price may be expected from the very sources which bought the stock — (usually the public) disappointed by its lack of vigor. This drop in price may, however, encourage buying from the interests that sold the stock a while back.

Quite frequently, investment trusts and other large operators engage in "switching" operations. They will accumulate General Motors as they liquidate other stocks in their portfolio. This gives the operators the opportunity to use their "buying" as *strength* for their "selling" operations.

To succeed in the market — *neither be a leader nor a trail-blazer.* The meeker, the less forward and aggressive — the *more of a fol-*

lower you can bring yourself to be — the greater your possibilities of success. A good nose to "smell" direction can be your greatest asset. *Leadership, forwardness and taking a chance* (*a la Steve Brody*) *are useless and costly in trading* because of the mighty forces arrayed against you. Fighting like Samson is of no avail. Durant lost millions upon millions of dollars trying to stop a market decline in General Motors. The laws of the Market Place had their way and took Durant with them. Rockefeller "plugged up" Oil at 50 — only once. The next time he was wiser and let it drop to its normal level.

* * * *

Through wisdom is a house builded; and by understanding it is established:

And by knowledge shall the chambers be filled with all precious and pleasant riches.

A wise man IS strong; yea, a man of knowledge increaseth strength.—— (The Proverbs)

CHAPTER VI

A Five-to-One Shot

TO DETERMINE market direction you must take into consideration its action for every period of time (years before) having a bearing on the present movement.

The 1937 Bear market with its 1939-41 "trailer" was merely a continuation of the Bear market which began in October, 1929. Charts are intertwined and interrelated and have their background in 1929-1932. That in turn had its background in market movements dating back to: (1) 1857-1864; (2) 1864-1877; (3) 1877-1881; (4) 1881-1896; (5) 1896-1928.

I have no desire at present to write at length on this involved subject on which another book could be written. I do wish to assure you, however, that not only is the present market tied up with, and a direct result of 1929-1932 — but that it has its inception in the very ailments accumulated by our business "pioneers" since 1859. The Railroads are a good example in point. They would very likely be in a sound condition if it were not for the "milking" by the "Empire Builders" in the last half of the 19th Century. "Milking" and "adding water" to stocks is part of our heritage. (Call it *reorganization*).

This reasoning is not far-fetched. If you are a student of psychology and religion, you know that we are still paying for the first "apple" Eve gave Adam. The worshipping of the "Golden Calf" has never stopped. Even communistic Russia recognizes the virtues of gold. The Ten Commandments still remain "broken". Is it then too remote to refer back some eighty-five years in our industrial cycle to strike up a comparison? On observing a chart of market prices from 1857 to the present you note a strong resemblance to a large, mythical "snake" winding its way into 1929. In that year it opened its mouth out of proportion to previous years. It "gave up the ghost".

The market reacts to plans formulated individually or collectively by *those possessed of buying power*. Call them "they" of Wall Street.

Call them the "free forces" of competition. Call them Bulls and Bears. Call them Promotors and "Suckers" — what's in a name? Their object is the important thing, namely; to make money in the market by buying low and selling high — or selling short at high prices and covering (buying) at low. They control price range fluctuation. It is up to you to find out what "they" (collective buying power) are doing (market action). In the market, buying power wins no matter who lays down the cash. Watch the market until you are certain of its direction as computed by "their" moves and "their" actions — as told by market action — in the rising and falling of the Averages — in the volume and character — of the trading.

Before you make a purchase, recapitulate all factors objectively and decide how much of a risk you are willing to take. You will purchase at a previous downward resistance point because you think the stock will go up — possibly 8 or 10 points. Therefore, you must risk no more than 2 or 3 points. If your judgement is proven wrong by 2 or 3 points — it may prove wrong by 8 or 10 points. Why increase your losses? Circumstances, price and character of stocks obviously control the risk taken. There is less chance of losing 8 points on a $20 stock than on a $100 one. (*Learn to figure risks by percentages on cost instead of by points*). Furthermore, you have more chance to lose 8 points on a stock having only a small issue of shares (thin market) than on one having millions of shares. In a general way, you must work on the assumption that at the time you bought you intended to make a profit on the subsequent sale. Apparently, the reason you bought was because your charts or experience told you that from here on the stock should advance. If your stock does not want to substantiate your opinion — *cut your opinion short* — charging it to premature judgment. You may even be right on the stock itself but the "timing" may be wrong. Your stock may not be ready to make the move because the "buying power" or "interests" in your stock are not in a rush for one reason or another.

Do not buy unless the chances are *at least five or six to one on the favorable side*. If a stock is technically a buy at 50 for a move up to 60 or more, and it declines to 48 — close it out. You have taken a five-to-one shot — a decline of 2 points against a rise of 10 points — and that is correct.

As soon as the stock reaches 52, place a stop-loss order at 47⅞ and as the stock rises, advance these stop-loss orders to minor resistance points. At no time do you risk more than 2 points. A five-to-one shot cannot be classified as gambling. It is speculating. The man who buys for profits of only a couple of points *is* gambling, even if he follows scientific buying levels, because he is taking the risk of a similar drop on the opposite side, (a 50-50 shot). It is all a matter of percentage risk. The less risk — the more profits in the long run. The less chance you take — the longer you last. The longer your capital lasts — the more chance you have to gain experience in trading. *Experience is your best asset.* If your capital is gone by the time you have gained experience — what are you to trade with? You cannot trade with marbles.

Ordinarily, stocks do not jump 10 or 15 points at a time. They usually advance gradually. The Street makes use of the *time element* waiting until conditions are ripe and taking advantage of the psychological moment for each push upward or downward. When stocks rise a few points — "testing the market" begins. This operation is constantly in progress. At all times weak holdings are shaken out. Only when stocks are in strong hands, *held by traders for additional profits, can the market advance into new territory.*

Watch the individual stocks in which you are interested — comparing their declines percentagewise (not by points lost) to the decline of the averages — and to other stocks and groups of industries. A strong stock will drop less — a weak one more. Buy the strong stock and not the weak one. Do not buy the stock that looks "cheap" in relation to its previous immediate high. That stock may participate very little in the next advance. You are not after "bargains" — but after price appreciation. The *stock that dropped less* (and for which you will have to pay a higher price percentagewise) *is a better one* and will make more profits for you in the move-up to follow.

"Market action" — if understood — is the key to profits

CHAPTER VII

About "Technical Condition"

THE study of volume and its implication — character of trading and its message — are extremely important to the intermediate trader. Watch volume and the character of that volume. There is all the difference in the world between a stock advancing on a few hundred shares and a consecutive advance on thousands of shares. If the advance is only on a few hundred shares (in relation to the stock's accustomed volume of daily trading) — it may be entirely artificial (even in these SEC controlled markets) — indicating lack of genuine buying power. But if the advance is on thousands of shares (and again in relation to its own normal velocity) — then obviously there is demand growing and the stock will be pushed up higher on the strength of the demand. Watch the character of the stocks which advance. If "thin" market stocks advance (or those trading in 10-share lots), and the regular rank and file are doing nothing — it does not speak of a good market. If "cats and dogs" (non-dividend payers) advance and good conservative stocks decline or remain stationary — it can well be a smoke-screen for the "enemy" — meaning you. If only one or two sales on a stock are recorded and the advance was from 3 to 5 points — it is of no significance. Should the buyer attempt to sell these shares a half hour later, the price would go back 2 or 3 points.

It is important to watch the hourly *volume* of the Dow-Jones Averages as compared to the *price* of the Averages. This can easily be obtained as the total sales and the Dow-Jones Averages are flashed hourly on the tape (and appears in your evening newspaper). It makes considerable difference whether the majority of sales (for the day) were at the low or high prices. This hourly Dow-Jones Average volume and price tabulation shows at a glance every hour where the forces are stronger — on the buying or selling side. Ordinarily, what applies to the Averages will apply to your stock (unless your particular holding resists the trend or goes against it).

Watch for the volume when it dries up. When it comes down to 400,000 or 300,000 shares a day — (this, too, is relative to normal for market move daily volume) — observe market action closely. Usually, if this is at the end of a decline, the market drifts by itself just to see how much more selling can come out. As soon as there is no more selling, demand will push the market up through the "vacuum" created by lack of sales pressure. (However, it can be lack of buying—indecision—at times and stocks can drop farther on the first pretext).

If you notice large volume on the top of a rally — or on the top of a Bull market (showing that a great deal of stock is being bought or sold) *with no progressive improvement in price — this is an indication that "distribution" is in progress.* Those in the "know" are getting rid of their stocks by handing them out freely to the public who invariably becomes aware of the market's possibilities when it is too late. The market, therefore, must be due for a decline.

For instance, if the market advanced 2 points on Monday on a million shares and on Tuesday only 1 point on a similar volume, and on Wednesday it gained nothing or lost a fraction — this particular rally is at an end and a decline can be expected. Diminishing volume on top of a rally is also a bad omen. It shows that buying has dried up and that selling (profit-taking) will probably begin pulling the market down. Should both volume and price increase — it is a very good sign, indicating that prices will go up still farther. If volume decreases as prices go down, the drop is petering out and the market will have a rally. But be patient. Good or bad markets do not develop or change overnight. Market moves take months and years of preparation. If you are impatient and come to hasty conclusions — you will enter or quit the market prematurely and suffer losses. Make certain of the market's direction first. When uncertain stay out.

The study of volume on individual stocks is especially interesting. It is necessary to know not only the number of shares of a particular stock traded in during a given day — but also its relation to the total outstanding shares. To make this clear, the vital point to consider is the percentage of shares traded to the number of shares outstanding. Also, the relation to the total shares of all stocks traded on that day. Learn to judge facts percentagewise. (In due time you will

know these figures by heart — especially if you watch only about 20 stocks). More on Volume study in later chapters.

Study the market's behavior after the close each day. Ascertain if it went up or down, the volume of sales, and the character of trading. The subject of "character" in the market is most important. You will learn to sell out even in a strong market because of "lack of character" in the stocks traded. Ask yourself if the trading involved investment issues or speculative (a deep study in itself). Were most of the 20 leaders for the day or week in the "cat and dog" class? If so, and if the Bull market is not in its inception — it's a bad sign. If the market went up, ascertain if it went up due to "short covering" or because there was a natural demand from the public and speculators. (Short covering can be detected by its "jumpiness"). If a rally is present because of "shorts" covered — the "technical condition" of the market becomes still weaker. The "shorts" are a potential buying force. They *must cover* (buy) sooner or later, and if they have already covered their shorts — then so much potential buying is eliminated. And, furthermore, so many potential sellers (shorts) are again on the lookout for a place to "give it to them".

"Market action" — if understood — is the key to profits

Good trading improves only with practice and an intelligent application of the basic principles.

"Investment" and "speculative" issues have definite and individual characteristics. Investment stocks are usually purchased by what we call "good people" or people with money. ("Good" in this connection has no personal "character" reference. Christ's saying about the camel and the needle, and the improbability of a rich man reaching heaven, may be applied to most "good people"). Such people do not become frightened when a reaction takes places. They do not buy on margin but put their holdings in safety vaults. They can hold on for years because they buy for dividends or long-term price appreciation, and are not concerned very much with the minor up or down movements. Investment trusts, university funds and foundations, estates, trust companies, also put a great deal of money

into "investment" stocks. If you notice "good" buying in progress (investment stocks being accumulated) — you can chance trading in speculative issues more readily. When "good people" buy, they have "good reason" for buying.

This thought is brought out so that you may watch the investment issues to see what they are doing. If Du Pont, Telephone, etc., drop you will know that some "good people" are disposing of their holdings. If, on the contrary, these stocks are gradually advancing — you will know that "good people" are buying. Whether they buy or sell — it is usually after sound deliberation.

The relative buying *volume* between investment and speculative issues (also taking in "cats and dogs") and their relative increase in price can also partially serve as a guide to the healthiness of the market. A market that has too great a proportion of speculative stock buying is, comparatively speaking, not in a healthy condition. A market specializing in "cats and dogs" is most dangerous. The reason is that *speculative buyers are apt to turn into sellers at the first sign of weakness* (or strength for the purpose of profit-taking) — bringing the market down. A larger volume of *investment buying produces a lesser proportion of immediate sellers* because they buy on a scale up or down for the long-term income through dividends and substantial price appreciation.

Watch the ten, fifteen or twenty daily "leaders" which your newspaper prints. Were there more "plusses" than "minuses?" Then the market is good. Be careful, however, of a consecutive over-abundance of plusses. Then the market is "too good", and a decline will follow. When you begin noticing more minuses than plusses — be on the watch. The market is becoming weaker. Watch also the "breakdown" of market action (in your newspaper). Of the total shares traded, how many "advanced", "declined", and "unchanged?" Here, too, a majority of consecutive advances is proof of an "overbought" market. A majority of consecutive declines over a period of weeks or months is a buying spot — as the market is "over-sold". (No, there isn't any typographical error in these two sentences). Future market action can be foretold by the number of plusses, minuses and neutrals in shares traded. When the number of "un-

changed" issues keeps at a steady figure in a down market — buy. The same phenomenon on the top of a prolonged rally — sell. Watch the twenty weekly leaders for "character" of trading. How many "cheap" stocks were there in the twenty leaders? Over 80% in volume traded is a sign of a "phoney" market.

Be patient. A thorough understanding of market action will come after experience and study. What you have read so far is *basic.* Profits and losses will depend on how thoroughly you have absorbed what you read. If you can "practice what I preach" in a year's time, you are a genius. If it takes two years — you are above average. If longer — get out. To make money in the market you must be far above "average" marketwise. Only five or ten percent of traders reach the market's "sanctum sanctorum."

Much has been written about the value of charts and how to interpret them. Every type and variety have been published in an attempt to give a meaning and interpretation to the "patterns" they form. Charts are valuable primarily because "the eye is quicker than the ear". The Chinese have a very apt saying that "one picture equals 1,000 words".

Extensive use is made of vertical charts (bar type) which show the "high", "low" and "closing" by days, weeks or months. On vertical charts it is customary to have vertical projecting scales at the very bottom showing the volume of daily, weekly or monthly sales. Prepared vertical charts on the Averages and Commodities can be found in newspapers like *The New York Times* and *Wall Street Journal.* These and other publications show regularly vertical charts by day, week or month, together with volume figures. Barron's Weekly publishes comprehensive material for charts.

Stocks are usually in one of three positions: (1) Accumulation period; (2) Mark-up period, and (3) Distribution period. When stocks are in an accumulative position you find the newspapers full of gloom concerning the market due to political (taxes) and economic conditions. Bad news causes the public to sell stocks. These in turn are bought up by accumulators, investment trusts, people "in the know". You can turn the story around by saying that when the newspapers are full of gloom, and the public throws stocks over-

board for what they will bring because of *fear* of worse things yet to come — wise people looking ahead buy these stocks. When the floating supply in the hands of the public becomes negligible — stocks are pushed up by degrees because of the "vacuum" created on the supply shelf. During the "mark-up" process "they" even buy at higher prices; this in expectation of getting still higher prices for the stocks which they are accumulating. In other words, they buy and also sell on a scale up. As time goes on, more and more good news finds its way into the newspapers. Psychological conditions become ripe for the public to again become interested in the market. *In the final analysis, prices advance when demand is greater than supply.* (The market does not care *who* does the buying).

Demand from the public who finds out gradually that the world is *not* coming down after all, propels stocks up, sometimes even beyond the dream of the insiders. When such conditions arise the Street says that the "public has taken the stock market out of our hands". Prices advance and the Street sits back handing out to the public the stocks accumulated at lower prices. Their operations are now confined to selling exclusively. You would do likewise. You bought at lower prices and now that you can re-sell at a good profit — you take advantage and liquidate. Stocks are then in a stage of *distribution. The most important thing to know about the market is whether stocks are in a distributive or in an accumulative position.* In simple language, are prices to rise higher — or are prices to come down?

This, too, you can learn from "Market Action".

The "Street" generally buys stocks at low and holds on, if necessary, for years until prices can be advanced. (Technically, the market is then in a strong position because stocks are in strong hands — and quite opposite to what the "average man" then thinks of the market). Later these stocks pass from the hands of the strong men into the hands of the public at considerably higher prices. (Technically, the market is then in a weak position while "everybody and his brother" has no doubt that the market is a "buy)". Consequently, when the Street buys the public sells — and when the Street sells the public buys. (The public has no other place to buy or sell stocks but the

Street). It is axiomatic that the market is in a strong position when Wall Street buys, since stocks are then in "strong cash hands". But when the public buys the market is in a weak position because stocks are then in "weak marginal hands" to be subsequently shaken out.

The reason so many heavy losses are sustained by the public, and the reason why 90% of the traders lose money on the market, should now be easily understood by you. The public loses money because it *usually buys stocks at a time when it should sell — and sells at a time when it should buy* — or buys stocks at the right time but neglects the second half of a profitable deal, namely, to sell at the right time.

If you can master the art of trading so that you will buy when the street buys — and sell when the street sells — ipso facto, you become an "insider" — trading as "they" and becoming a part of that invisible power called "they". If you can learn to act by "thinking it out" and not through "impulse", you are a success.

The principal reason for losses in the market is that purchases or sales were "timed" unwisely. This is not only true for the main market trend which sometimes takes years to complete its cycle — but also for the minor ripples and movements. The market never stands still. It either goes up or down. If you purchase at top levels, naturally your stock will go down because it has already completed the up move. "If Spring comes, can Winter be far ahead". With such practice you will either lose money or you will have to wait until the market returns to the level where you bought. This process takes years, during which time your stocks are "frozen" and you become an involuntary "permanent investor" — a position you acquired unintentionally.

The simpler method — (and therefore the hardest) — is to buy when stocks are down and the "world is coming down" and your spirits are "in the dumps". Then you have a better chance to profit by the advance which must occur.

Now let us return to the subject of charts. Using them as a guide, you will be able to find pictures of accumulation or distribution. When you observe (on your charts) that stocks move lifelessly and in a narrow range — assume that they are being accumulated by substantial moneyed interests. "They" do not buy stocks in order to sell them at lower prices. They are in the "know" — convinced

that at some future date conditions will be ripe for an advance. That is why they accumulate at near bottom prices. They sell no more than they can help — meanwhile buying all they can without "bidding", as this would send prices up. Naturally, they do not wish this to happen. Their aim is to keep prices down so that they will not have to pay a premium. When 1,000 shares, for example, are offered at 87 — they do not take the entire lot because that would shoot the next offering up. Instead, they buy only 400 at 87; the balance they may take at little lower or higher prices.

The price at which stocks are sold — their narrow range as they move up or down — the deadness of the market — the bad news in the press — your own feeling of despair and hopelessness — are the usual signs of "accumulation". When charts designate that a period of accumulation is in progress — *do not rush to buy* because stocks can go still lower if sellers at lower levels can be found. When the stock in which you are interested has gone out of its trading range, making a "new high" for its move — that is the time to buy (on easiness) even though you may have to pay one or two points more for it than the very low. It is the safest period and the one in which to expect the fastest rising movement in the shortest time. Even after the chart has given the "advance" signal — you should not rush to buy. Wait until a minor reaction sets in, as you must always be on the lookout for a "false move".

Chartists have developed a series of ingenious names to apply to various formations. For example: "Head and shoulders"; "spiral coils"; "triangles"; "double tops"; "double bottoms"; "triple tops"; "triple bottoms;" etc.

As the name implies, the "head and shoulders" top indicates that the stock is top-heavy and, therefore, should go down. On the other hand, "head and shoulders" bottom implies that the stock is well anchored and should eventually go up. A "double or triple bottom" would show that a stock has come to a base three times (let us say 40), and that it did not go down any farther. This would imply strength and "support" at 40 with a good possibility that the stock will soon begin to rise. The reverse is true on "double or triple" tops. If a stock has come up two or three times to a certain point (let us say

45) and cannot go higher, it will in all likelihood go lower — (stock shows that at 45 it encounters "supply").

I will not attempt to describe all the other "labels" on chart formations, as we are apt to attach more importance to them than they merit. Neither have I any intention of giving you "signals" of which you will not be able to make practical use.

Do not assume that there is "magic" or "mysticism" attached to the meanings and forewarnings of chart formations. Every formation has its psychological reason for developing in the shape and form which it did. Under ordinary circumstances, logical sequences must follow. You must learn to look at charts just as an architect looks at a "plan" for a building. The architect or machine designer visualizes his plan from his chart and looks for weaknesses in order to improve it. A stock chart should tell you its strength and weakness beforehand, — and not after the event when you cannot profit from its "reading".

When for months stocks travel in a narrow range of, let us say, 3 points and that range shows itself on the chart — you must assume that something will happen — either on the up or down side. Substantial moneyed interests do not usually idle along within a 3-point range for months unless there is a real basis for doing so. The Stock Exchange itself represents a tremendous investment and overhead. A return must be realized, or they would have to close up. The thousands of brokers' offices are under heavy expense in personnel and equipment. They are accumulating quietly and holding the "bag open" to accept only a portion of what is offered. The intention of the insiders is to discourage you. They figure (correctly) that you will tire of your holdings should they remain for months within a narrow range. In fact, you may weary of the entire market. (Brokerage houses are deserted whenever the market travels within a narrow confine on small volume without sharp moves — either on the up or down side). But that is just what the insiders want. (You, too, will prefer it after you join the "Insiders Club" by becoming a good trader). They prefer to gobble up your holdings at the lowest price, and every maneuver of theirs is aimed to act as a nerve irritant in order to prompt you to sell. Invariably, their tactics succeed. The public at this stage evaporates by degrees — trekking their way

out of the market. Certainly, they are in no mood to buy as they are consumed with "fear" and can only think that the world is coming to an end. They long for the "good old market" but despair of its ever returning and, consequently, sell everything they have.

An issue will move out of its range upward when insiders "feel" that much more stock will not be offered at that (or lower) level. When they have bought up everything in sight — that is the time when these particular stocks (usually the entire market) leave their trading range for a move upward.

The above explains the psychology of the "line" formation. Every other chart formation is in reality merely a register of human psychology. Through the chart "picture" you will eventually be able to tell the character of the stock. The peculiar action of certain stocks, as differentiated from other stocks traded, is due to the "character" of its structure, backers, traders, etc.

The degree of the advance after breaking out of this trading range is in direct ratio (most of the time) to the width (horizontally) of the "line". If your chart shows that the trading range has been in process for six months — it is an indication that stocks have been accumulated during the period by "strong hands". Investors with small capital do not have the financial resources — nor the patience — for a six months' period of accumulation. Substantial moneyed interests desire real profits on their investments to compensate for their patience. The longer the line of accumulation on your charts (horizontally) — the higher prices will go (vertically). And this, too, has its roots in human psychology. If, for instance, a "line" of accumulation consumed a year's time (a long line) — prices must go much higher than if accumulation was only a two months process (a short line). The capital invested is six times as much and must earn so much more (by time and overhead expenses).

Now, let us look into the "head and shoulders top" formation. It is folly to introduce mysticism or "cabalism" in explaining it. Better to look for its peculiar formation in human weakness and habits. A "head and shoulders top" is usually formed after a good-sized advance. The left shoulder is the "normal" top — implying that the stock has nearly completed its advance. That is the time, however, when the greatest "suckers" step in, as they buy when the

pot is "boiling" — thus pushing stocks up a few points. But that is as far as it can reach because volume buying cannot come in. Too many good traders are competing for the cashing of their handsome profits and are selling. The insiders are not interested any more in "still higher" prices. This push-up forms the "head" and a "big head" at that — (it should really be called a "big headache"). Coming down again to the normal top the stock forms the right shoulder. Gradually the right shoulder "rounds itself out" or drops to lower and lower bottoms and tops. *When the right shoulder is lower than the left (on the other side of the head) — that is the safest time to sell and place shorts. Stop-loss should be placed from 1 to 3 points above the head* (depending on the type of stock).

The same analysis in reverse is true for the "head and shoulders bottom". This formation usually occurs at the end of a decline. The left shoulder is usually where the normal bottom should have been — as meanwhile stocks have been accumulated on the decline by the insiders. To test the market's capacity further in producing stocks — a push downward is given. But if more selling cannot be brought out — it returns to its normal bottom, forming the right shoulder. (If more selling *is* brought out — then the "picture" continues to be that of an ordinary "downtrend" and does not create a "head and shoulders" because the right shoulder does not appear in the picture). After a little trading range to "develop" the shoulder — the stock is pushed upward. *When the right shoulder exceeds the left shoulder on the other side of the head vertically in height — it is usually a good time to buy. Stop-loss should be 1 to 3 points below the head* (again depending upon the type of stock).

The "triangle" formation is somewhat more involved. Usually it is referred to as a "coil spring". Narrowing at the apex it *can break out in either direction.* There are no mysteries connected with that either. Here are the psychological reasons for its formation based on human weaknesses and character habits. Let us say that a stock (or the entire market) travels within a range of 5 points, and there are shares "sold" and "bought" at the top and bottom of that range. (When it gets to the top of the range people sell — and when it gets back to the bottom of the range people buy). These trading levels however, condense increasingly. Trading narrows itself to a range

of a point or two, indicating that no fresh buying or selling can be induced. The market is in a stalemate. If it is a *minor point of accumulation — stocks will break out to a higher level,* as those wishing to buy at this level must pay higher prices to encourage selling. If it is *minor distribution, however, lower prices will result in order to induce more buying.* That is the reason for its breaking out on the downward side. The stalemate is broken up — more people have made up their minds in one direction or another. The velocity of the upward or downward move, and the height or depth it may reach depend on the size of this triangle. This can be determined from your charts by observing the extent of the height at the beginning of the formation of the triangle. If the triangle from end to end is two inches (or let us say 5 points) — then the possibilities are that it will break out that distance upward or downward. (In computing distance by inches instead of points, make certain that your chart paper is based on arithmetical and not logarithmic calculations).

There are various angles and degrees (geometrical) of triangles. Draw lines on the tops and also bottoms of the triangles connecting them horizontally. If both top and bottom lines point to "dead center", no directional clue is given. If one or both point upward — it will most likely go up. And if the situation is turned about — the reverse is true.

———

I suggest that you keep charts on at least 10 stocks (20 would be preferable) — selected from leaders in various industries and among those leading the field in sales on the Exchange.

A trader of any consequence should make use of charts. One trading in a more or less scientific way cannot come to any well-grounded conclusions without them. This does not mean, however, that you can trade from charts exclusively without taking into consideration other elements which have an effect on security prices. Charts have a "time element". There are times when chart implications are almost 100 percent correct; then again, there are times (such as Hitler's blitzkriegs) when chart formations should be "anticipated" and not "read". (If Hitler and events in general were unpredictable — how could charts which, in the final analysis, portray

human psychology, thoughts, ideas, etc., be predictable?) In such a case it is best to give the charts a chance to create their own formations over a period of months under the developing circumstances before attempting to trade by them.

In 1941, when the government began "dictating" price levels on commodities, I notified all my clients who traded in commodities that *I cannot read my own charts anymore* and, therefore, am compelled to refrain from commenting. At this writing, (Sept., 1943), I am still "out' of commodities. Not until one is convinced of the correctness of his viewpoint should he attempt to trade (or advise).

Charts clearly show lines of support on the bottom formation and lines of resistance to advance (which are the same as lines of supply) on top formations. Such formations show the range of a stock (or the Averages) in its minor movement. When stocks go out of this range, either up or down, developing into another formation — then it becomes a part of the intermediate move in that stock — or the Averages.

To study the configurations on charts so as to "read" their implications, it is necessary to take into consideration formations which have developed during preceding months and years. As an illustration, should a formation on General Motors be between 36 and 41 and it continues upward forcing its way out of that range until it reaches 54 — you will notice at that point a strong formation in the zone between 54 and 60 made months or years previously. It implies a great deal of trading in General Motors in the range of 54 and 60 some time past. While most stock was shaken out at lower levels, judging by the size of the horizontal formation (which shows the *time element* while developing the formation) — you must assume that certain people have not as yet disposed of their stocks. These individuals may be anxious to get out at 54-56 (profit or no profit). In the zone between 54 and 60 there is a *considerable supply* which may force the stock back to 38-39. Such a configuration, therefore, is a good warning of what is to come — as at that point *supply* will be encountered. "Supply and Demand" control prices.

There are also charts which take into consideration 3-point and 5-point movements. A 3-point chart does not register an upward or downward fluctuation of less than 3 points. If General Motors at

40, for instance, fails during the period to reach 43 or decline to 37 — no entry is made on the chart. Only in the event of a 3-point rise or drop is any notation made. The same principle applies to 5-point charts. Charts showing 3 and 5-point fluctuations enable one to survey the battlefield from the top of a mountain — thereby forming a perspective of the scene. These charts, however, do not tell "time" — whereas a daily chart does show the time consumed. This is important as it gives you a rough idea of the volume involved in a particular move. Furthermore, you can draw "trend lines" on a daily chart only as *time and action* coincide. If you should miss entries on a daily chart, your "timing" through trend lines will be out of gear.

To properly view the "immediate" moves I use charts giving the hourly figures of the Averages, *with volume indicated on the horizontal formation.* Naturally, this gives me a clearer picture of the progress made during a given day or week, the volume necessary for the advance and, in case of a retreat, the forces involved. *The advance or retreat and the volume* are constantly pictured. This is done so that one may see at a glance which are stronger — the selling or buying forces and which are more capable of supplying the greatest volume — the retreating or advancing forces. After several months of accurate charting along the lines mentioned, one can tell at a glance which is the leader at the moment — supply or demand — and which way the market is likely to go. But of this later.

Charts become vitally important after a year or two of visible formations. That only for the immediate move. To "read" a chart correctly, one should have a ten-year picture. Let us assume that General Motors moved in a range of 40-45 — going neither down to 39 nor up to 46. Then one day, General Motors moves up to 46. Theoretically, the *stock is then a buy for a further move up.* Purchases, however, should be made on a reaction from that point, and not immediately after it crosses 46 in order to obviate "false moves". You can also buy partly at 46 and more on a setback.

If you keep a current record of Dow-Jones Averages and individual stocks in the form of charts — you will be in a position to know whether we are in a "Bull" or "Bear" market — or if a change of

trend is at hand. What is true for the Averages is usually true for your individual stocks — no matter how good they may be from an "earning" or "statistical" standpoint. There are stocks, however, which will move *against the trend* at times, and it is these *stocks which you should favor particularly.* Take advantage of their strength or weakness and *play them for all they are worth* — but do that only when the entire market is beginning to move up. A stock that *moves up* when the trend is *down* will certainly make a better showing when the trend is up, and vice versa.

Most important to know about the market is its trend. This is clearly distinguishable on charts. Draw trend lines on charts, both for the Dow-Jones Averages and individual stocks. In a *rising market* these lines should be drawn by connecting first the lower formations diagonally — then connect upper formations in a similar way by using a "parallel" ruler. Do this as soon as a definite formation is developed pointing upward. Draw the diagonal trend lines to extend about four inches forward so that you may verify whether the future movement of the stock is within or outside the trend line. In a rapid-fire advance the formation will move out of the trend lines — to the left. This is favorable, as it shows faster progress than the trend lines drawn for it. (Although in a sharp and rapid upward formation — referred to as a "comet" — a fast shake-out often follows). Should the stock drop out of formation on the right side by descending below the bottom trend line — there is danger ahead — for *time* as represented by the trend line is "running out" on it. The stock is either not making progress — or it is actually *dropping in price in contrast to the designated upward trend line.*

In the first case the price of the stock can remain stationary or even advance a trifle and still not be "on the beam" — with *"time"* — as shown by the fact that it has left its line on the right side of the track — *"time"* moved on but the stock did not. In the second case, the price of the stock dropped more than its *"normal"* share, as designated by the lines in the track. *"Time"* and the stock parted company. Each went separate ways.

The same holds true, of course, for the Dow-Jones Averages. Build and reconstruct trend lines of these Averages as soon as you note important changes. *Should you find they go below the trend*

line — extreme danger is involved. Most stocks follow the direction of the Dow-Jones Averages. The study of trend lines will be advanced in a subsequent chapter.

* * * *

Wisdom resteth in the heart of him that hath understanding: but THAT WHICH IS in the midst of fools is made known.— (The Proverbs)

The heart of him that hath understanding seeketh knowledge: but the mouth of fools feedeth on foolishness.
— (The Proverbs)

Without counsel purposes are disappointed: but in the multitude of counsellors they are established.
— (The Proverbs)

The wind goeth toward the south, and turneth about unto the north; It whirleth about continually, and the wind returneth again according to his circuits.

The thing that hath been, it IS THAT which shall be; and that which is done IS that which shall be done: and THERE IS no new THING under the sun.
— (Ecclesiastes)

CHAPTER VIII

On "Trading Short" and "Stop-Losses"

MY CLIENTS are far too advanced in trading technique to be interested in the simple business rules and mechanics of stock market operations. (Any broker can supply a booklet of rules and regulations, commission charges, etc.) Therefore, I have refrained from mentioning the ABC's and mechanics of buying and selling stocks — devoting my efforts to the finer "technical" points and market theory.

There are, however, "full-fledged" Bulls who are "afraid" to trade backward (short side) — thus losing half the opportunities for trading. Hence, I shall discuss short selling and its rudiments.

It is essential that you learn to trade short. In being only a perpetual "buyer" instead of at times also a short "seller" — one is out of the market half the time (on the down side). *By trading both ways* (on the down side and the up side) *opportunities for profits are doubled.*

In simple language, a "short sale" is selling stock you do not possess — (let us say Steel at 100) — figuring that at some future date, months or so hence, you will be able to buy (cover) that same stock at 80 — complete the "short sale" (by buying) and make a profit of 20 points. The question of how one can sell something he does not possess is answered in this way: When you "order" a short sale your broker borrows the stock (sold short) from the owner (loan crowd). There are people who have in their vaults stocks in which they do not trade. They bought them for the sake of dividends, etc. For a consideration, the owner permits you (through your broker) to sell his 100 shares of Steel, although you yourself do not own it. He loans you his hundred shares (not its value but the actual certificate). A month or so later when you decide to cover the short sale (at 80) — and actually buy in the 100 shares that you borrowed, your broker returns the 100 shares (a different certificate) to the man from whom he borrowed it (for you). The man lost nothing in the

transaction, (in fact he charges a commission for his loan) — as he is not interested in the cash value of the 100 shares but in the actual "certificate". And one certificate is as good as another.

Of course, the owner is very much interested in the dividend on the 100 shares; therefore, you must pay him the dividend (if declared) if you happen to be "short" on dividend date. However, you usually make up this dividend (if you are on the right side of the market). Ordinarily, a stock when ex-dividend drops an amount equal to the dividend paid. Since you are trading on the short side you benefit by every drop in price. (A stock that does not go lower and "makes up" its dividend the next day or two is a strong stock and should not have been shorted).

On a short sale you make a profit *only* if the price goes down. You lose money if the price goes up over and above the price at which you shorted the stock. If, for example, you sell short 100 shares of Steel at $100 and the price drops to $80 — you make the difference between the sale price which is $100 — and the price at which you replaced it (to the owner), which is $80. In other words, your profit is $2,000 although you actually had no stock of your own to sell. If, however, you shorted Steel at 100 — and instead of Steel going down as you expected it went up to 120 and you covered at 120 — you lost $2,000 plus commission, etc. (Heaven forbid!)

Short selling (hedging) in other fields is quite a common practice. The man who buys wheat for milling wants to be assured that the price he pays will be the same three or five months hence. The only way in which he can protect himself is by selling short an amount equivalent to that purchased. If he buys 10,000 bushels at $1.00, he will immediately sell short 10,000 bushels at $1.00. By this process of "balancing" he will suffer no loss on the amount he bought. The long wheat will stand him exactly $1.00, even though the price should go down to 80c because of the 20c profit on the short sale. If wheat advances to $1.20 — he must cover his short sale at a loss of 20c — yet is is no loss to him since his wheat on hand is also "worth" $1.20.

Short selling in stocks is also at times done "against the box" — (a hedge against securities held "long" in safety deposit boxes). In this manner an investor often protects his "long" holdings against a

decline which he "expects". When the decline is sharp that investor may even decide to cover his shorts then — thereby making a good profit at practically no risk outside of the "paper" devaluation of his own securities held through the decline.

To be successful in business it is necessary to do what competitors do. It is the same in the stock market. *You must play the game.* If you trade by only buying for an upswing — you are only half a trader because you are not taking advantage of downtrends. Faster and "sweeter" profits are derived at times from short sales than from "long" purchases. Stocks have to be pushed up, but they "drop by themselves", as the saying goes. *By all means learn to trade short.* Otherwise, you are in a "part-time" profession.

Do not engage in short selling in an up-trend market. Neither should you buy in a down-trend market. The principle is the same. Become bearish only when prices have advanced sufficiently to warrant a substantial drop. When you think prices are too high — when stocks are churning about without making much headway — you can sell the market short. Then follow through, going all the way down, selling more as you have profits and covering your shorts only when the market has reached a resistance point with sufficient buying power to bring stocks up again.

For example, if Steel is quoted at 100 and you figure it will go down to 60 — sell 200 shares short at 100. Should it go up — cover your shorts (stop-loss) at 103⅛. Every point upward on a 100-share sale is $100 cash loss, and there is no limit as to how far it may go upward. (Downward your loss is limited as it can only come down to zero). So trade safely by using stop-loss orders. However, if "luck" is with you and prices go down to 90 — then you have a profit of $2,000. By that time you should take on 200 additional shares on the short side. When 80 is reached you already have a profit of $6,000. At this point take on more shorts — as many as you feel reasonable, 200 or 400 shares.

The principle to follow is to speculate on the profits which you already have. If you continue "lucky" all the way to the bottom — you may have as many as 2,000 shares short — yet not for one moment have you risked more than the original 3 points on your first 200 shares. (Of course, this fantastic example can hold good only at

the beginning of a sharp Bear market if you strike it right at the top, and is not meant for "encouragement's" sake).

Apply the same principle in buying. Average downward when you trade short. Average upward when you trade long. Most "would-be" traders average their losses by buying more. That does not minimize the loss. It merely changes the "percentage" lost. Proper trading technique calls for only 25% "chance" on your first entry into a market move. As profits accumulate and the market progresses in your direction — invest 50% of your capital. In the last push be in stocks 100% — and on margin.

In trading short (as in buying long) you must know the resistance points on your stock and on the Dow-Jones Averages. It is essential to figure out in advance the price at which you are ready to "call it" bottom. At that point cover your shorts. To "overstay" your short position is just as foolish as not selling when a market "tops".

In selling short you will begin with the speculative stocks, as they go down first; following you will sell the more stable stocks short. They, too, drop sooner or later. Usually, they start their movement after the shock troops retreat. When you are through with Chrysler or any of the leaders — short the bigger and slower-moving stocks. Short only high-priced ones. A $126 stock (Steel in 1937) went down to $42 and netted $8,000 profit, but a $10 stock can at best only go to zero, with a maximum profit of $1,000.

To go a step farther in my discussion of resistance levels — I will take as an example the year 1937. In March the Averages were 194. That was the time to go short. Averages declined to 164 in June and came back to 190. If it were possible to calculate beforehand with any degree of accuracy — the Dow-Jones Averages at 164 were at a resistance point. Theoretically, that was the time to cover shorts. When stocks reached 190 in August — it was theoretically the time to go short again — and to stay short until the Averages reached 98. (This seems a simple thing to do, but is actually very difficult and improbable of accomplishment.)

The example I presented is, of course, "looking backward". Do your thinking *forward* — in advance of the event. Avoid "dreaming" backward of what you could have done "If I were King . . .".

———

Beginning with 1932 stocks were in an *accumulative* position. Prices were rising, with several good-sized interruptions and reactions up to March, 1937. By then people in the "know" had disposed of their holdings accumulated during the preceding period. In fact, investment stocks ("good buying") made their tops in November, 1936 and "distribution" was on the way. "They" had begun to accumulate in 1932-1933 and sold gradually all the way up until 1937. Let us assume, for the sake of "theory", that in the month of March, 1937 "they" had few stocks to sell. Though they disposed of their holdings they could not very well "go out of business." So they started the ball rolling down hill — selling stocks short. It is these very stocks shorted that the "Street" and all good traders buy up (at bottom) to "cover" their shorts. Would the public and holders of stocks become stubborn and refuse to sell stocks, then the shorts would be "cornered" and forced to cover at higher prices than that at which they shorted. There were several interesting "corners" in commodities and stocks, with catastrophic results to the shorts.

Stocks which were bought by good traders at low prices from the public (1930-1932) have been on the escalator of higher prices and sold all the way up to 1937. *At the psychological moment of the potential downward business reaction* — when President Roosevelt "spoke" that commodity prices were too high, "they" *sold short.* That is how the game is played. My advice to you is to *learn to do the same.* When in Rome do as the Romans.

The process of a stop-loss order on a short sale is the reverse of that on a long. If you sold Steel short at 100, place a stop-loss order at 103⅛. If it goes up to 103⅛, your broker "covers" you. You have lost only 3-4 points and you will try again when conditions warrant. In the technique of short selling (as in buying) you must, of course, take into consideration resistance points. Place stop-loss orders a few points above where *stocks were unable to pierce through during previous sessions.* If the highest Steel reached in the previous intermediate move was 100, and you sold short around 99 (a correct procedure) — place your stop-loss order at 103⅛. It is advisable to place stop-loss orders ⅛ point above or below even figures.

Learn to trade on both sides of the market with equal skill and ease. If you bought Steel at 100 and calculate (with the aid of your

various tools and theories) that when it reaches 120 or 126 it will begin a shaking-out process — sell your longs. Should you have reason to believe that Steel is going down sharply because of the Bull market having ended — sell short at the same time and place you disposed of your longs. If it was logical not to hold stocks for an up move — the down move and short sales should be the objective. *My advice is not to play the short side in a Bull market — nor the long side in a Bear market. Your chances are greatly increased if you play only one side — the one which is with the trend.*

Of course, a trader at all times takes certain chances just as a business man does in his manufacturing or merchandising operations. The question to decide is not *"Should I buy?"* — but *"Which side is the safest?"* As a trader, you have already learned that profits in the market are on both the short and long side. The real question is — *on which side to be so as to reap a profit?* There is a vast psychological difference between "should I buy" and "which side" is capable of producing better, safer and faster profits. In the first case you are committed and prejudiced regarding buying — and the alternative is to be an onlooker on the side lines. In the second case you are open-minded and neutral, and you can be a direct participant. You can either buy or sell. If you are a man of "action", you should learn to trade with ease on both sides.

I have been citing a great many things which one should never do, but there is one "don't" in particular which I would like to impress upon you. *Never trade on the market without stop-loss orders* because you can never tell what may happen. Illness and accident play too large a role in our lives to neglect giving thought to these possibilities. A stop-loss order does not necessarily mean that your stock will be sold at the price you stipulated. Should the market open lower than your stop-loss order — ipso facto, you would be sold out. If, for instance, you bought a stock at 62 and placed a stop-loss order at 59⅞, (⅛ below an even figure), and there is a lower opening, say at 56, that is what you would get. But should you have no stop-loss order and the market keeps on dropping without your being aware of it — it might slide down to 50 and lower and you would lose that much more. Imagine that you held stocks in

March, 1937 at high prices (Steel at 127) and you suddenly became ill and were unable to attend to the matter of your stocks until March, 1938, with Steel around 40 — would not a stop-loss have come in handy then?

A stop-loss order should be placed below a resistance point. If the last resistance point of the stock you bought at 60 was 58 — you should place a stop-loss order at 56⅞. The amount of variance on a stop-loss order depends entirely on the kind of stock you have and the width of the resistance base horizontally. Some stocks drop 5 or 10 points at a time. Trading in highly volatile stocks should cause you to make allowance for lower stop-loss orders. Their real resistance points are usually lower down. On the other hand, should you trade in low-priced stocks — you don't need a stop-loss order of 2 points. Three-quarters of a point, or 1 point, may be quite sufficient. Much depends on the habits of the stock you trade in and where a *substantial resistance point of time and invulnerability* is located.

After placing stop-loss orders keep in mind that you must advance the figures of the stop-loss as your stocks are rising. If you purchased at 40 — place a stop-loss order at 37⅞, or below the last resistance point. If it advances to 45, increase stop-loss to 43⅞. When the stock reaches a point where you think there may be a turn downward — stop-loss order should be moved a little below the low of the previous session. This must be done to protect your "paper" profits. Of course, if you are certain of your ground it is best to do your own selling instead of waiting for your stop-loss to be "touched off". Your selling price will naturally be on a higher level than by stop-loss method because you will aim to sell while the market is "hot" and climbing, with demand predominating — whereas a stop-loss is always caught at a lower figure on a reaction when supply is King. *Profits mean nothing until they are cashed.* Once your stock goes down — your profits are gone. Therefore, advance your stop-loss orders as your stocks move up. Why take chances?

The same principle in reverse applies when you place a stop-loss order on a short sale. Place it higher up at a resistance point of sufficient time and horizontal width of base. Remember, however, that when a stock moves up (as contrasted with down) — it usually begins a wide move upward. When a stock goes down below a

previous resistance point it can be only the "picking-up" of some stop-loss orders. The stock then proceeds upward, but if a stock goes over and penetrates into new upward territory, it means that there is a scarcity of "supply" – and the stock is due for a further upward rise.

Always use stop-losses. A steam boiler (no matter how perfectly designed) must have a safety valve. The boiler performs in accordance with definite laws of physics, and the safety valve has been designed in case certain emergencies arise. A medical practitioner is dependent on the thermometer to determine the degree of temperature of the patient. "If" and "when" the temperature reaches a certain degree are definite indications to the physician enabling him to intelligently apply the required treatment. Protective devices and guards are in almost universal use. When "blitzed" (1943), Hitler wore two pairs of brown pants.

Stock market trading is dependent on circumstances and conditions which we must study and observe very closely. The "ifs" and "whens" naturally become our guide-ropes in determining direction. Consequently, "ifs" and "whens" are your safety valves. Should you "decide" that you *can* trade in the manner in which you began – regardless of changing conditions – it would be better if you stop trading entirely. Sooner or later you will be parted from your purse should that continue to be your basic attitude. The moment you fall victim to cocksure formulas without qualifying them – I suggest you stop trading. *Stop-losses take care of "ifs" and "whens".* "Take it or leave it" should be your trading motto. In my market recommendations to my clients I give stop-losses on stocks far in advance – just in case of "if" and "when". From letters received after a sharp break, I know their appreciation in having been "careful".

* * * *

Pride GOETH before destruction, and a haughty spirit before a fall.—— (The Proverbs)

CHAPTER IX

Ever See a "Top" Without a "Bottom?"

I SHALL endeavor to explain methods for foretelling Tops and Bottoms on the Dow-Jones Averages, and on individual issues. Do not expect what follows to do for you what "crystal-gazing" does for the fortune-teller. It will not open any "mysterious" avenues — nor will it reveal any "secrets". Forget that there are any such things as secret formulae or hocus-pocus by which you will be able to forecast. If there were, the "insiders" would gobble them up and would withhold them from the public, just as "they" do in the industrial field with many worthwhile patents which may prove a handicap to "existing arrangements", (oil, rubber).

And yet, *there definitely is a "system"* by which your trades would most times be successful. When you have finished *absorbing everything* in this volume — you will know ninety percent of the time when to "call" a *top* or a *bottom* — and to call them correctly — *or you had better look elsewhere for your monetary fortunes.* It is all up to you — it is in you.

Let us begin. You will find from here on that I am "jumping" from one subject to another. Do not mind it. This is necessary for our ultimate purpose. As I introduce you to a certain "theory", I am compelled to elaborate on subjects seemingly outside the sphere of our thesis but nevertheless actually related to the topic under discussion. As one begins the discussion it is often necessary to repeat oneself. So please do not mind this because it is for your benefit. There's no rush. Better "take your time" to learn and put into practice what you read or "time" will take you in its hands and teach you the costly way — through hard knocks and losses. You will discover that this book is the cheapest way to learn.

In the stock market there are three different movements to be taken into consideration:

(a) The stock market as a whole.

(b) Major groups in the market — (Industrials, Rails and Utilities).
(c) Smaller groups within the three major groups such as railroad equipment corporations — part of the Railroad group; electrical equipment, copper mining and producing companies in the Utility group. The Farm group, for instance, aside from manufacturers of farming implements also includes mail order houses which thrive on the prosperity of the farmer. These groups may again be subdivided — Aviation and Ship-building in the Armament group (in the Industrial field). This would also cover copper-producing companies and chemical companies manufacturing war materials. The latter may also be considered part of the Farm group, as they supply fertilizer and other chemicals to farmers. They should also be included in the Building group because they supply paints, cement, roofing material and other products required in a building program. By the same token, the Steel group should be considered along with the Building group, as well as the Railroad and Automobile groups, since it supplies rails and steel for rail equipment, autos and buildings.

In order to enable one to foretell the course of market prices, one should first give consideration to *the market as a whole* and then scrutinize individual stocks or groups. It is far wiser to begin with the ABC's which are at the same time the XYZ of stock market trading. Like Creation — it is both the beginning and the end.

When considering buying or selling, think first *in terms of the entire market* and base your decisions to buy or sell on the prospective outlook for the entire market — and not only on the prospects for the stocks which you selected. The stock you selected (even if exceptionally good) will most likely begin to move only when the entire market is set for the rise. I particularly stress this point because from letters received from clients I know that most traders seldom consider their "pet" stock in the light of the broader market movement prevalent at the time. Most traders forget only too often that the stock market is primarily a worldwide barometer. They would have their "pet" stock travel against the "blood-stream" — the "life-line" of the world, with the result that even though they may have picked a good stock (which is very likely) — the decision to buy was premature (most likely too late). Marketwise, when one

bases all one's calculating and hopes on one particular stock (no matter how good) — disregarding the *entire panorama of which that stock is only a part* (*the market*) — he is lost at the start. (*When* is not only more important than *what* — but is also much more difficult to answer).

To repeat — it is of the utmost importance that marketwise your "thinking" should be confined *to the broad movement of the market as a whole.* As you know, the market is at all times either in a Bear or a Bull movement. The down movement begins as soon as the up movement has fulfilled its mission and plans (distribution of stocks). Vice versa, when the down movement has "liquidated" all or most of the "weak sisters" (accumulation of stocks) — the up movement begins. When you see the market "doing nothing", it is really "paving the road" for its next move — either up or down. It is of *first importance* then to know whether the entire market will be in an up or down movement as far as the immediate future is concerned. Your stock may be a "pet" to you — but to the market as a whole it is just another "puppy" — or perhaps a "dog" — who will get his "bone" only during "eating time".

You may consider, of course, the entire process of stocks going up and then down — to the extent, let us say, of 50 points — a useless and illogical waste of human effort and you would be arguing correctly. To what benefit, for instance, is it that stock prices in their totality mount fifteen billion dollars only to drop twelve, fifteen or eighteen billion dollars in the next movement? Does it create additional wealth? It certainly does not. The country as a whole is not any richer when total stock prices are up fifteen billion dollars than when they are down that amount. Actually, it only creates a "paper" illusion. For example, should only one-half of General Motors' stockholders want to cash in their stocks at a certain price level quoted on the Exchange for that stock — its price could drop to less than half the quoted price — in one day. In fact, trading in that stock would have to be "suspended". However, *if you are one of the few who convert paper profits into cash while you can still get it — you can greatly increase your cash resources.*

From the above you can see that "holding on" to a stock in its up and down movements without cashing your profits is, to say the least,

"wasted motion" and cannot increase your "cash value". One Prophet in the Bible went so far as to say that "all was vanity and vexation of the Spirit, and there was no profit under the sun" (Read Ecclesiastes. It's no "high-brow" stuff and is as fresh in the philosophic field as the Song of Solomon by the same author in the field of love and romance.)

In stock market terminology *strength* is really *weakness* and vice versa. This analogy can be applied to a man reaching maturity. It takes some forty-odd years to attain a position of manhood, strength and confidence. We are accustomed to referring to such a man as full-grown, at the same time inferring that from then on gradual deterioration to old age begins. (In the manufacturing business men over forty are not looked upon as good labor material, and according to broadcasts by Gabriel Heatter they should be using Kreml to conceal their age). Since the stock market is always traveling in a vertical up and down direction — you should be thinking when it is *up* (matured) in terms of *down* (deterioration) — and when it is *down* (weak) consider it as preparatory growth preceding a *rise* (potential strength). We are not dealing with known factors in the stock market — but with *potentialities and prospects.* The "facts" (or the obvious) were "paid for" and "discounted" marketwise years or months back. You cannot "cash in" on that. The potentialities are uncertain and, therefore, of potential cash value. *We are trading on the outcome of our assumption.* You can "cash in" only on the market's potentialities — and not on its certainties. (Do not trade on "sure things").

To profit in the market you must bear in mind these principles. Once you fall in line — susceptible to news items in the press and gossip in board rooms — dealing as they do with the *present* — you will never foresee the down when the market is *up*. (A newspaper becomes wrapping paper or "rags" with the appearance of the next edition). If the "present" is "rosy" — only those who planted the "seed" (possibly with "sweat and tears") will enjoy its fragrance. Likewise, when it is down and you remain credulous to gossip about the gloomy nature of things (as they are) — *you will never "see" eventual sunrise* — and you will be unprepared for its benefits. Religion teaches us to be "righteous" for the entire span of our lives in

order to be admitted to Heaven later. Who cannot or will not "see" Heaven — will never see it.

Study and observe charts based on Volume and Price and you will find that the greatest volume of trading takes place when prices are high. Those purchasing the greatest volume of shares at the very Top are the public . . . forever thinking of the sky as the limit. (I should really apologize for using the word "think". Actually, they do no such thing). It is also an unfortunate economic phenomenon that the Public has money to "invest" only when prosperity has already matured and stock prices are high. The "night shift" workers of 1943 bought stocks during the war boom period with part of the forty billion dollars of "extra" cash. Those selling shares at the very *top* are the *insiders*. In point of fact, the first definite sign to good traders that a Top has been reached is an *increase in volume of trading without proportionate increase in prices*. When that occurs the Insiders are on the job unloading stocks on the public, and you had better follow the "tip".

By Insiders I do not only mean those who run the Stock Exchange. It so happens that the Exchange is full of Insiders because they are better traders than the public — and this is one of the reasons why they become Insiders. There are plenty of Insiders, however, on the outside among the rank and file of the trading public. (They are your type — those who would rather know "why" and "when" than "what". They are my clients who subscribe to my weekly market letters). It is these "inside Insiders" and "outside Insiders" who unload their stocks at the time they believe prices cannot go much higher. It is the public (the Outsiders) who then buy these stocks. They buy because they cannot think in terms of night and day — of action and reaction. They are part of a vast herd — one following the other, thinking of no boundaries . . . no set values . . . no changing conditions. They do not know that at high prices the market has discounted one set of favorable elements and is on the verge of discounting another set of potentially unfavorable conditions. They do not know that in the final analysis the stock market is a "game" for profits — "played" between Insiders and Outsiders. What chance would nine "amateur" baseball players have against the Yankees? If it is your ambition to play the Yankees — you had

better prepare yourself first. Get your training in the Spring — (practice trading on "paper" before laying down your cash) — or you will not be in good "form" to play for the grandstand (with cash).

Now that we have learned another lesson, namely; that the market like the history of nations, peoples, individuals and the varied elements of life consists primarily in *recurring movements,* up and down and down and up — we may conclude that the first requisite for good trading is to sell out at or near the top (the time when the farmer harvests his tall corn) — and purchase at or near the bottom (the time when the farmer plants his seed deeply rooted in the soil). I use the words "at or near" because we should never expect to reach a point of perfection capable of selling at the very top, and buying at the very bottom. Since the market is a tug of war between buyers and sellers — it is difficult for any human being to predetermine when the very top or bottom will be reached. Science has not yet designed instruments to measure quantitatively optimism or pessimism — foolishness or wisdom. All we should expect to know is when a top or bottom is present, or close enough to pay us a visit.

Another important point I should like to bring to your attention is this: While the market moves continually up or down — it is not a mechanical instrument which can be adjusted with 100% accuracy — or "wound up" months in advance indicating beforehand exactly how far it should go. Nor is the market a "wooden soldier". During July, 1943 when I was in the midst of writing this book, a client walked into my office and offered me $1,000 cash if I would "tell him my system" of "hitting" it on the head. My reply was that I really have no "system" that I could "tell" him. I remarked: "I wrote The Seven Pillars of Stock Market Success, and I am now writing another book. Here is a copy of The Seven Pillars with my compliments, and by the time you are through with the Pillars this new book will be off the press. Why spend $1,000?" "But who has time to read books?" he replied. Whereupon, I told him frankly that he wasn't fit to catch squirrels — let alone trade in the market by a "system" *he is unwilling to learn.*

Human beings like ourselves affect fluctuations of prices. We think, hope, plan, aspire and figure things out in advance, and

act according to our emotions, instincts and thoughts. It is our action when we buy or sell 100 shares of stock that determine where prices will go. And in the meantime, "things happen" which cause us to change our actions. You must watch for this. Stop-loss, as you know, is an anti-toxin for "if" and "when" "things happen" suddenly. Frankly, however, "things" do not "happen" when we are "right" on the market. Plenty does "happen" when we are "wrong". When one is "right" on the market everything that "happens" is in his favor. By being "right" he indirectly *foresaw* what would "happen". It is just like marrying the "right" woman. Whatever "happens" is a "bundle from heaven". Marry the "wrong" woman and everything that "happens" makes life worse.

There are two prices for each stock. One is the "bid" and the other the "asked" price. John Smith has 100 (or 100,000) shares on hand. He wants 98 for them. Henry Brown wants to buy 100 shares. However, *he* wants to pay only 97. Both have expressed their desires to the Exchange (through their brokers) — the first by offering to sell 100 shares at 98 and the second by bidding 97 for 100 shares. Both have laid down good American dollars to back up their judgment. If John Smith has his way the price will be 98. If Henry Brown succeeds, the price will be 97. If for one reason or another there are no buyers at the moment (at 98) — and if John Smith is anxious to sell his stock — he will come down to 97 or 97½ — and Henry Brown will have received his 100 shares at the lower figure. This is what determines the price of stock on the Exchange. If in the interval between the "asked" price by John Smith and the "bid" price by Henry Brown there should appear an individual called Sam Jones who is willing to pay 98 for the 100 shares — the price will not drop to 97. What is more, John Smith, who may have many more hundreds of shares on hand would ask 99 for his next 100 shares, instead of 98 — and the struggle would begin all over again. There would be offers at 98, 98½, etc. But if John Smith insists on 99, and there are no more John Smiths at the moment to sell at 98 — the price goes up to 99. And it stays there until a John Smith appears who is willing to take 98, 97 or 96 for his stock. Then the price drops.

Everything marketwise is simple. But so are the Ten Commandments brought from the "Mountain" by Moses — and especially the Commandment "Thou Shalt Not Kill". Do people observe the simple Ten Commandments? Every hour over the radio and in newspaper headlines you hear of human beings being killed by other human beings. Do traders want to learn the simple rules of market behavior? Judging from my wide experience the answer is *no.*

The explanation above about John Smith applies to the millions of people trading in the market, regardless of who they happen to be. It also applies to the thousand or more different securities listed on the Stock Exchange. This tug-of-war goes on constantly and persistently — private wires from brokers bringing bids and offers from all parts of the U.S.A. — (and in peacetime from the entire globe).

Since we do not deal with one particular personality in the market, but with millions of traders and investors all over the world — one can readily see that it is these millions of traders who decide the prices on the Stock Exchange. If they buy prices rise — and if they sell prices decline. You do not know John Smith who holds the shares for sale — nor do you know Henry Brown who wishes to buy. In fact, you are not concerned with them personally, although you have been trading with them — but you are definitely concerned with all the Smiths and Browns and their preferences marketwise. In a word — you are interested in the behavior of the human race if you are interested in the market.

So, let us go a step farther and compare this body of buyers and sellers to a regular army. You have read of historic battles and famous generals who recorded their successes or failures. You have read about the "morale" which exists in an army. The "morale" of the Italian soldiers in Sicily and Italy was low — result: "our own" casualties were few when faced by the Italians. The "morale" of the German soldiers in Sicily was high — result: heavy casualties when we encountered the Germans. Try to think of the army of buyers and sellers in terms of *morale.* If their morale is high they will buy — if it is low they will sell. Learn to think of what is going on in the minds of the John Smiths, Henry Browns, Sam Joneses. Grown-up men and women are much like children after all — with mentalities not too dissimilar. They are influenced by one another and by the

same *hopes and fears*. When the "big bad wolf" appears on the scene all children cry "boo"; another reception is given Snow White; still another to the "witch" who wants to poison her. Similarly, mature people (you and I) are influenced by the press, radio and pulpit (and last but not least, by our wives). These are the forces that direct our "collective" thinking.

Let us look back to May, 1938 (or any period that can be analyzed) and observe (on charts of certain stocks in the Aviation group) that whereas during the month of May it was comparable to a 30-story structure ($30 per share) — by November, 1938 it became a massive skyscraper of 80 stories ($80 per share for Douglas). We had not forgotten that entirely different "foundations" were necessary for an 80-story than for a 30-story building.

We penetrate the minds of the Insiders who bought at 30 and "saw" their stocks through to 80. Do not consider it an accident. Stocks do not advance close to 200% by themselves. There was a plan behind it and it was properly timed. Inevitably, history repeats itself. When a stock has risen from 30 to 80, we know that the Insiders have made a handsome profit. They, unlike the public, do not ride up and down with stocks involuntarily and without profits. If they decide to ride down they do it *intentionally* — selling their long stocks at a profit and riding down on the short side. Glancing at the charts we notice that the volume increased at the top. Observe the "head" formed on the charts and you will notice that it is "wider", representing a greater volume of stock.

In November, 1938, viewing individual stocks you could not fail to see that they were in a Topping position. "Topping" means that the Insiders are ready to take profits, preferring cash rather than stocks for the time being. Following simple mathematics, one could see that enormous profits were already accrued in the Aviation group — as well as in other stocks. *Would it not be logical for the insiders and also for the good traders among the ranks of the public to cash in on their handsome profits?* In order to be able to reflect logically at such periods, it is of vital importance that you think intuitively in terms quite contrary to the "lambs" or the public. To them it is "obvious" and a "sure thing" that when prices are up they should get into the "swim". They "see" opportunities "too late" to be of

much benefit to them — usually going in to buy when the market has already reached a Top — or is close to it.

A good trader will speculate either at or near Bottom — or even at the "half-way" mark figuring correctly that as the market moves in a zig-zag formation up and down (by the law of action and reaction) — having been in its down move for quite some time the next move must logically be up. Do you realize the difference between going into the market because prices "are up" and because "prices should go up?" Here is the one big difference between profits and losses.

Good traders sometimes hit the very bottom and at other times — by properly apportioning their funds — buy more at the next or third Bottom — or buy additional stocks on the way up. This gives them an "average" price on three varying bottoms. Thus their stock is secured midway between the very bottom and the first bottom where they began to accumulate (or between the very bottom and a little higher on a scale up). That is good trading because nobody has as yet managed continuously to strike bottom at its exact point. This is not necessary if profits and not "pride" and "show-off" is the motive.

To again come to the subject, noting that there were continuous steps upward practically unbroken by serious dips — we began to look into the minds of the Insiders. And what we saw there were fat, little "auctioneers" with gavels in their hands running around crying "SOLD, SOLD, *SOLD, — sell at a profit* while there are still cash customers!"

Another factor to bear in mind is that Insiders do not indulge in the kind of buying which pays 80 for stocks which were 30 six months back. Professionals buy stocks only when there is a good move up in prospect. Once buying at the highest level is ruled out — then that point automatically becomes a selling level because Insiders can see only two stages in stock market behavior — *buying* or *selling* level. The only "holding" level they consider is between the buying and selling level. They buy and sell only a few times yearly — exercising extreme patience which is so essential to the realizing of profits in such ventures.

Do not for a moment assume that they always sell their stocks at *the* predetermined price. Their figures, just as yours and mine, go

haywire at times. Good or bad news of a sudden nature upsets their plans. It is not always that they can penetrate the minds of the Browns, Smiths and Joneses correctly. Neither can they always foresee the actions of the Hitlers, Chamberlains, etc. When prices reach near tops, the selling price is almost out of their hands. At such times they have no idea how far the market may go. They just continue dishing out to the public all it wants. It is impossible for them to know in advance to what extent the public will get into the market — and to what level the public will bid prices up — and which particular stocks the public will favor most. They let nature take its course — supplying the demand. While public buying will bid prices up for a time — the anxiety of the Insiders to dispose of stocks will leave no room for bargaining.

Competition among the "Insiders" for cashing profits is a factor. In other words, the time arrives when Henry Brown bids 97 for Chrysler and gets it at that figure. Brown thinks he struck a bargain because he bought it a point or two or ten below the previous high. Judging by recent performance he considers that inasmuch as the stock has just risen 5 points in two weeks — why should it not rise another 5 points in the course of the next two weeks. *But that is as far as it goes.* The Insiders have finished the "mark-up" job and are now willing to hand out stocks to the public (distribution) without raising the "asked" price. Otherwise, they will have too many stocks to distribute on the way down at lower prices. Do not forget that there will be stock "waiting for them" on the way down — some of which they have to take in order to show orderly "support". This condition (distribution) we observe *when we see part of the market advancing and these stocks in a topping position standing still — or actually losing some ground.*

Let us analyze this picture as it appears on the charts. On many stocks a *"head and shoulders"* formation has taken place. In many ways its structure reminds us of the grotesque snowman with a large, flat head and two broad shoulders which we used to make when we were children. The Left Shoulder (on the way up) has been formed — zig-zag fashion — by a natural demand for the stock. Buying by the public gave the stock an extra "push" relative to "demand", and

this formed the head. The public evidently found strength at the very point where good traders saw weakness. It was not really necessary to wait for the formation of the Right Shoulder because this push-up looked highly suspicious. A "head" was in the process of being formed. The Left Shoulder was already constructed and half a head emerged. We notice that the Head widened *horizontally* but did not move higher (vertically). Volume was increasing in comparision with similiar days on the same stock in the Middle or Bottom of the move. That is what widened the Head horizontally. If the stock was "healthy", it would also move up vertically, for obviously an increase in volume (demand) should show an increase in price. When that failed to take place, and the chart widened out horizontally and not vertically — we suspect that a Top has been reached. However, we are in "no hurry" because pictures on charts and events in the market do not crystalize over night. We can afford to adopt a "watchful-waiting" policy — meantime protecting our stocks by pushing up the stop-loss to a trifle below the last low on the chart.

Of course, you have heard much talk about people losing their fortunes "suddenly" and without warning. There is no basis for such assertions. I know of no other business or profession where the handwriting on the wall so plainly fortells events to come to those who want to "know" them. The market usually gives every one a chance to get out on time and with "honors". Only those who think that *day* will never end and *night* will never come . . . get "stuck suddenly" in market operations.

If you "begin right" by purchasing stocks at the "right" prices — near the Bottom or in the Middle of a move — you can readily afford to wait until the Right Shoulder forms (on a lower level) — assuring yourself that a Head and Shoulder formation *is* present and *that it is time to sell out.* Usually, the Right Shoulder is only a few points below the Head. (One should never "be sorry" about a few more points which he "could have had").

Head and Shoulder formations are formed at critical points — both at market Tops and Bottoms. As far as chart formations having any meaning — a Head and Shoulders Top should not be disregarded. When that formation is observed, sell such holdings

as soon as (or even before) the right Shoulder is formed. At Bottoms, as soon as the Right Shoulder exceeds the Left Shoulder even by one point — buying time is indicated.

The difference between Head and Shoulders, Top and Head and Shoulders Bottom is in the *volume of trading.* While the Top Head is wide because the public is in the market buying — it is quite the reverse on Head and Shoulders Bottom. The market dragging on for weeks, moving within a range of a few points on small volume and no activity, causes the Head to be rather narrow (only the "nose" showing). This is usually a buying point. The public invaribly is awaiting "activity" before getting in, and activity is mostly to be found at or close to Tops and not at Bottoms. And so the best opportunity "right on the nose" — is "Gone With The Wind".

The safest time to buy is when the market is dull and trading is going on only in small volume, and the public is on the sidelines. If you buy then, exercise patience (comparable to that of the Insiders) and hold on until activity develops. . . at times taking as long as six months or more for the market to generate. Months later you will get *the* signal that it is time to sell. The volume of trading will increase, which means that "suckers" are getting into the market. In the final analysis, you can only make money in the market by buying from the "suckers" in dull periods at the Bottom — or by buying their "sold out" margin accounts and waiting patiently for months or years until the same, or other "suckers", are ready to buy the same stock back from you. . . . at higher prices, of course. It may seem at times that you will never find one to whom to sell your stock and may wonder whether the public will ever get in again. But do not worry. Human nature usually reacts in the same manner. The public, generally speaking, learns slowly. For the few who graduate into the ranks of Insiders through study of market action — other "suckers" of the younger generation (and cocksure of themselves, as usual) — and also many of the old "suckers" who meantime worked hard to save up some cash arrive to invest in "luck". These are the very people to whom you will sell your stock on the way up. Barnum was right. There is a "sucker" born every hour.

Here is another point to stress. . .*It is vitally important to limit the risk in trading.* In the market you can only increase your "cash resources" continually if your *risk* is limited. Profits accumulate and swell the capital structure if the *risk* is confined to a narrow range which consequently minimizes losses. For example: On prime commercial paper you can borrow money at an interest rate of ¼ of 1% and on ordinary good paper banks will negotiate loans at 6%, and show profits at the end of the year. If you drive your automobile carefully, experiencing no accidents, an insurance company will give you a collision policy at reduced rates. At the age of twenty you are a good risk for a longer life — and your insurance premium, therefore, is low — while at sixty years of age the risk is hazardous and, therefore, the life insurane rate is increased many, many times. Large institutions — basing their profits on lending money, issuing insurance, etc., take the "risk element" into consideration. They *trade in risks* (just as you do in stocks) and *accumulate fortunes by studying the risks* and basing their charges according to the risk involved.

During war, shipping insurance rates go up sharply. These insurance companies *show enormous profits because their risk is scientifically limited to deals where a profit is a certainty.* If the Volume is too great (such as a large fire insurance policy), they will split up the policy among various companies so as to limit each company's proportionate loss in case of fire. *(It is equivalent to investing only 10% of your money in one stock.)*

One can always learn something from the manner in which "big business" operates. F. D. R., experimenting in his first two terms surrounded himself with "brain trusts" from colleges, etc. But when he needed practical results (in war production, etc.) — he called on Wall Street and Industry — Nelson, Henderson, Wilson, Knudsen, all practical men. "Big business," (including Wall Street) has an over-abundance of "brain trusts" without shouting its "praises" from roof tops, or placating themselves with "titles," ribbons, medals and uniforms.

In stock market trading *learn to limit your risk. It is possible to experience few losses in your market transactions providing you take no undue chances.* Whenever you trade see to it that the probable

percentage of gain is greater than that of the possible loss. By this I mean that you should not buy a stock because it can go up 10%. That stock, just because it only has 10% in it, can lose that much and more in one week or day. Buy a stock because it can go up 50% or 100%. What if it earns only 40% for you — your risk was only 10%.

The action of the Stock Market — the expression of millions of individuals — must of necessity reflect varied points of view. We are less concerned with the "mob" than we are with intelligent traders. In a democratic country it is the majority that counts; in the stock market it is the majority (collective forces) of buying power (not numbers of people) which is the telling factor. It is the minority who have the buying power, intelligence and market brains. It is the minority who profit from trading. Therefore, if we are to trade properly, we should make a pilgrimage into the minds of the "big shots" consulting, as it were with major (buying power) industrialists, politicians, diplomats, bankers, investment trusts, etc., in an endeavor to penetrate their thoughts at the moment. Our minds must be projected across oceans into the palaces of kings, dictators, prime ministers, etc. We must know what international powers are thinking and planning and deduce what to expect.

On the face of it this would seem like a "big order". But do not despair. There really are no "big people" in this world. Hitler at one time was a "big shot". So was the "umbrella man", Chamberlain. Even that idiot, Mussolini, ruled the Italian people for over twenty years. It is "We the People" who put them there. Their "bigness" and the "positions" they occupy are only relative to the ignorance of "We the People".

Place yourself *outside and above* the "faculties", "facilities" and "habits" of the mob and you will encounter no difficulty in understanding the "big shots". In fact, you may find that it was not "worth" the effort to "understand" them. They, too, are only human — and some less so. However, being human, the "big shots" are also subject to all human virtues and vices. And that you must know — stock-marketwise.

* * * *

CHAPTER X

More About "Tops"

PREVIOUSLY I mentioned that it is of the utmost importance that you train yourself to think of *selling during an advance* and of *buying after a decline*. On the same premise, it is just as important *not* to buy if you are uncertain of your ground. This brings into being another principle, namely: *when uncertain stay out of the market*. Trade only when you can see things coming your way. "Taking a chance" will lead you nowhere. There is a great difference between money actually lost through trading on the wrong side — and money which "could have been made" if you had traded. *Good money is made by being in the market only in those moves which are certain of success. Even then, success is not "certain" three out of ten times.*

In the professional world of medicine, law and engineering, "cases" and problems lend themselves to diagnosis and experimentation. You have certain facts, symptoms or basic elements around which your "case" or problem revolves. In the market, too, each day is a "case" in itself. If you are trading, you should have the facts before you (as they occur in the political and economic world). It is sad indeed to read the countless letters which I receive from clients who purchased stocks without the least understanding of the general scene. They never thought of asking for advice before they were knee-deep in trouble. In many instances, it is equivalent to bringing a dying patient to the doctor. It is just "too late" and "too bad".

I shall strive to give some detailed directions on how to foretell market tops and bottoms. Much depends on *what you wish to accomplish*. As you know, the market is divided into minor, intermediate and major swings. Some technicians even sub-divide each of these three movements into dozens of little ripples, waves, etc. Therefore, when you ask yourself the question: "How do I hit the tops and bottoms?" — you must first of all make clear to yourself whether you wish to predetermine the tops and bottoms of *minor,*

intermediate or *major* movements. How far up the mountain is your aim? In some respects the methods are similar — and in others different. The most difficult to determine are the minor swings.

To begin, I shall endeavor to explain the methods for determining an intermediate move. When you think in terms of market movements — you must not only *consider the present but also the past and future.* Our domestic economy and that of the entire world runs in cycles. Relating as far back as ancient times evidence of this can be found in the Bible. There are cycles of war, peace, construction and destruction — cycles of famine and prosperity. There even are "ideological" cycles. A few years ago we were in a world cycle comparable to that mentioned in the Scriptures when the Prophets admonished the populace from every market place (soap-box orators). Nazism, Fascism, Communism, Socialism are all by-products of the "ideological" cycle in which we found ourselves.

This particular cycle has reached its apex and is now in a state of decline. Many adherents of one group or another have found a great many reasons to be disappointed in the ideological "purity" of whatever camp they followed. The short-lived and abortive partnerships of Hitler and Stalin turned followers away from both camps. The "ease" with which Communists and Nazis all over the world adopted policies and slogans to suit the governments of Russia and Germany respectively was another factor. The brutality with which Russia, the Socialist country, exterminated and "liquidated" all other shades and brands of "socialists" drove most "liberals" and "fellow-travelers" back to where they "belonged".

It is not at all unlikely that the period now emerging will be one during which man will find more contentment in his fellow man — in his "pipe and dog" — his home and garden than in following new political and social concepts.

But it is not my object to introduce you to the theory of cycles. For our purpose it should be sufficient to repeat that cycles of prosperity and depression have run more or less as follows: (1) 1857-1864; (2) 1864-1877; (3) 1877-1881; (4) 1881-1896; (5) 1896-1928. *Our present market is still an off-spring of the 1929 Bull market.* For practical trading, we may disregard anything before 1929 — but *we must not neglect the entire picture from* 1929 to *date.*

In an endeavor to determine an intermediate move — as for example from Dow-Jones Averages 93 to 158 and up — the essential background is the chart picture of 1937-1938 to date. What confronts us here is *obviously* the 144-158 level. This stands out as sharply as a hump on a camel's back. It was from 98 in May, 1938, that they advanced to 158, and from that point retreated to 93. In considering possibilities for a move up one must, therefore, *look for obstacles in the way,* and the immediate obstacle which presents itself is *the* 158 *level of November,* 1938. As the market will move higher and higher to the 1929 level — other "obstacles" are waiting for it — but it must first of all overcome 158 (and then 194).

Now, why is the 158 level *the* real obstacle? What is it that makes one doubt that the Averages will go through the 158 level on their way to still higher prices (194)?

The Averages in their moves up and down are nothing more nor less than a barometer, a gauge or measure of the future advance or recession in the business world, and the profits which "business" can earn. Consequently, you must ask — do the same reasons exist which prompted the Dow-Jones Averages in November, 1938 to decide (and correctly so) that the business outlook was not any too bright — therefore, not justifying advancing stock market prices farther than 158.

In other words, does July, 1943 (or any "date" with which you want to compare it) promise a better picture for business profits and dividends than November, 1938? If it does, then the Averages — in their ability to know all — see all — hear all — will advance to 158 or even farther. But if not —if business profits are not in the offing or taxes are too high — then the Averages will hold back from reaching and going over 158 until conditions justify the advance.

If the Averages had advanced from their 1939-1943 range and crossed over into the 159-160 territory (2 or 3 points above the *real obstacle* of 158 of November, 1938) — it would have indicated that intelligent world opinion marketwise had decided that the business picture would not only be better in 1941, 1942, 1943 than in October, 1939 — but also better than in November, 1938. The Averages, however, had Herr Hitler to consider. To the Averages, Hitler was

an enemy of "capitalism". The Averages came down to 93 in order to "discount" Hitler.

As the picture became brighter for the United Nations in 1942-1943, the Averages went up smartly to discount in advance Hitler's defeat and victory for *capitalism.* Once the Averages reached 146 and Mussolini capitulated, the "Averages" had nothing left to discount in that direction. It all became quite obvious. The market stopped and retreated as expected and has begun to discount *peace.*

By this time you know that a great number of people who trade in the market have no business there because of lack of comprehension of market fundamentals. We refer to them as the "public". Since they are not "academically" minded, they buy stocks mostly when the market is noisy, circus-like and stirring with activity. What attracts the public is the "beating of drums and blaring of trumpets", with the result that during November, 1938, February, 1937 and in 1929 they bought at high prices. While a great many have sold out since — or even have been "cleaned out" because of margin impairment — many, regarding themselves as "long-term" investors, are still holding stocks. They have become what we are fond of calling "involuntary permanent investors".

The wheels of fortune keep turning, and as per Major Bowes:

"Round and round it goes . . .
And where it will end, nobody knows".

Some find themselves in financial need and decide that as soon as they can "break even" on their last "unfortunate" transaction — they will stay out of the market forever. The majority of old-time stockholders will *be fearful at the* 158 *level lest the market come down again to the* 93 *level. This produces supply.* Still others who bought at the 93, 112 or 126 level and who rightly consider the move to 158 a worthwhile one — will then be anxious to take their profits. *That, too, produces supply.*

It is most natural, then, that a *previous resistance point,* such as the 158 level should again prove formidable. In searching for the stopping point on the move I consult my charts and immediately notice the "hump" at the 158 level. It does not take long to decide that 155 (3 points lower) will be the end of the move. *Supply will force the market down.* Please understand that when I previously

mentioned that the public bought at the 158 level, I didn't mean to imply that all of them bought on the last day (in this instance November, 1938 at which time I urged all my clients to get out of the market). Some bought at lower levels. This, too, you can learn from the chart.

A "volume" chart, in fact, will tell you approximately how many shares were sold at each point — decline or advance. Studying further, you observe that the market did not drop perpendicularly when it reached 158. It does not usually behave in such a manner. "They" sell stocks to "bargain hunters" on the way down (after a top is reached) in the same manner as "they" do on the way up. Observing the chart, you cannot fail to note that the market hovered around the 144-145 level for quite some months. Many traders bought at the 144 level on a reaction from the 158 level. They figured that they bought a "bargain" — 14 points below. Therefore, you must base your calculations on the assumption that *stock will be encountered at the* 144-158 *level and will hold the market down.* In my Market Surveys of 1943 I repeatedly stressed the difficulties to be encountered at the 144 level. The market stopped at 146. My clients liquidated.

The only time we will be looking for "easy sailing" is when the Averages have penetrated 158 upward. Why? Because normally, if traders "bid" on stocks you can expect holders of stock to give it to them at their "bid" price — or at the "asked" price. However, once the Averages penetrate 158, *holders of stocks from the* 93 *to the* 158 *level have either sold out already — or will not let any of it go in expectation of still higher prices.* The result of their refusal to let buyers have stocks will be that "bids" will be raised. From that level on it should be clear sailing for a while — as there are no shelves of stock to supply immediate bidders. Those who will let go of some of their stocks will do it only at a good profit. This means that prices will have to advance. They will advance "easy" because of the "vacuum" of stocks above 158. By the same principle, a propeller on an aeroplane induces the plane to fly forward. It creates a vacuum.

Reason things out for yourself. If one had the courage, obstinacy or patience to hold on until new highs were reached — why should he "let go" at a point or two above the greatest resistance level since November, 1938? Traders who held their long stocks — or bought

below that level — knew that a substantial advance was in the making. If they thought otherwise — they would have disposed of their stocks at or below the 158 level. The results will be "thin" markets with no great volume of stocks for sale "overhead" — and with everyone expecting higher prices. A breaking-out upward of the 158 level should bring the Averages up to 174. At this point some "swing" traders will let go of some of their stocks. Prices might hover around this point until the "profit-taking" spell is over and supply diminished or actually cleaned out. (Theoretically speaking, and of no imminent danger, is the fact that in 1937 the Bear market began at 165. Some stock may still be there).

There are several methods for ascertaining the stopping points (from 158 up). One is to add 10% to the price of the Averages at the resistance point and call it square for the present. In other words, as the Averages were previously 158, add 16 (15.8) to 158 which bring the Averages up to 174. Other methods will be discussed subsequently.

Bear in mind that market prices are the *evaluation of future earnings* of various corporations. The common stock of a corporation will rise if prospects indicate future profits, earnings and dividends. Compute the average price of almost any stock for five or six years back and you will find it was correctly priced and discounted at one time or another — according to the average corporate earnings (or prospects) for that period of time.

The wide-awake, long-term investor will buy shares when there are no earnings — at low prices — and hold them for years and years. When earnings increase he will sell out. True, he has held on for many years, but averaging the price paid and charging interest on the money invested as compared to interest rates he could have received from mortgages, real estate or bonds — he is better off by investing in common stock for a certain period.

Investors have their money in common stocks at times — at other times in bonds — and at still other times in the bank — depending upon interest rates and yields from bonds as compared to income from dividends on stocks or prospective stock price appreciation over a period of years. This is why common stock prices advance whenever bond prices decline. Investors sell their bonds which

have a "fixed" yield and shift to common stocks which have greater *potentialities for price appreciation.* There is also the possibility of a dividend on common stock which frequently is higher than the yield from bonds or interest rates which the investor might secure.

An intelligent investor switches from stocks to bonds or to bank interest according to the *time element.* He switches according to where he can secure the highest returns. A "good" long-term investor does not confine himself *to one form of income.* He travels with the tide of earnings and interest rates. And his wife travels with the weather — from Florida to the North — to Canada and return. And, as the saying goes: "There is a tide in the affairs of man which taken at the flood will lead him on to Fortune". . .

When there is "idle capital" in the banks interest rates fall. Banks cannot pay interest if there is *no demand for capital.* Idle capital gravitates toward common stocks before an increase in business has taken shape or form. As business improvement materializes idle capital is invested in plants, merchandise, inventory, equipment, etc. Thus, demand for capital grows and, consequently, the interest rate increases. By that time *many common stocks have already advanced considerably* due to the fact that they discount the business picture months ahead. Investors then sell their common stocks (on which they made a profit) and place their capital in the bank (or in bonds) to draw interest until such time as the cycle repeats itself — and common stocks are again a buy at low levels.

It is clear to be seen why all common stocks do not act alike during an advance. Shares which are steady dividend-payers will *not* advance as sharply as non-dividend payers. The *prospect* of a dividend is what brings non-dividend payers up. Those which regularly pay dividends do not have much "prospect" to discount. The price of dividend-payers is "comparatively" stable because the dividend is a known factor. Common stocks which have been in the "red" and are emerging into the "black" will advance farther during this "prospective" transition (from red to black). This is one of the reasons why "cheap" stocks appreciate more percentagewise at the ending of a Bear market than do "good" stocks. "Cheap" stocks are then "in the red", and "black" is the prospect on which people trade. The

"hopes" of putting a stop to the deficit and emerging into an earning period prompts this greater advance percentagewise.

A mass of "economics" in condensed form is presented in these two pages. A 300-page book could be written on this subject alone. Keep in mind, however, that the normal laws of Economics are not operative during this second World War. Only God and President Roosevelt know whether orthodox Economics will ever raise its head again. F.D.R. and the New Deal social reforms, plus the government financing of war plants (and also perhaps of "conversion" to peace) — "ceilings" and "roofs" — have played havoc with normal behavior of Economic laws. So has "Market Action" changed under the New Deal. There is less "discounting" of an event to come. The market is "acting up" to phenomena as released from the wires. This is in favor of us "unsophisticated" folks.

Let us return to the Dow-Jones Averages. These Averages *consistently represent a cross-section of all varieties and shades of stocks.* They include classifications such as Rails, Industrials and Utilities. Included in these groups are dividend-payers such as American Telephone, Proctor & Gamble, as well as Baltimore & Ohio, which rarely pays a dividend. At the junction of 174, we want to decide what the next stopping point will be. *And again we make use of the same forms of arithmetical logic and common sense.* Scrutinizing our charts for some years back we find that 194 was the high point of the Dow-Jones Averages for a six-year period from 1931 to 1937. *It took six years for the Averages to reach* 194 *after digesting the debacle of* 1929. During the next six years (from 1938 to 1943 inclusive) the Averages did not manage to get closer to 194 than 158. Will the Averages go over 194 in its move from 174 — or will 194 be the stopping point? If so, for how long?

The answer to this as well to all other questions marketwise *depends on your approach.* The approach, in turn, should be adjusted to the "time element" then prevailing, and if it is properly "timed" the answer to the question will be in harmony with events to come.

No doubt you have heard of "analysts" who are prepared to give the answer for ten years ahead. If an analyst can foretell correctly and in detail month by month for ten years to come — he should be

a "bargain" at any price for our major investment trusts, banks and financial institutions. He really should be chairman of F.D.R.'s "brain trust". *The fact is that it is impossible to foretell market movements any more for any period of time into the future.* Market movements depend greatly on the thoughts, ideas, psychology and plans of those who are in the market. And as I have previously stated, this is controlled by the acts of our leading statesmen and industrialists (and sudden wars) — *and their behavior cannot be foretold.* The manner in which the "freedom from want" problem will be tackled (if at all) — the coming "peace" — Russia's European ambitions — the New Deal — Taxes — Inflation — F.D.R. — these are the elements which will control price movements for the next ten years.

Who foresaw the real Hitler in 1933? I remember an address in 1933 and the speaker warning the world that Hitler was using the German Jews and Catholics as "guinea pigs" for the rest of the democracies and nations of the world. Like the true Prophets of the Bible, he cried out: "Stop him now or he will later devour you all." But even as to the Prophets of old — nobody paid any heed — and we are now sacrificing thousands of our boys to correct our shortsightedness.

Did Mussolini foresee what would happen to his "empire"? Did Chamberlain — with "peace in our time" — foresee the bombardment of England's civilians, or Dunkirk, or Coventry . . . ? Did Stalin ever dream that he would be a "bed-partner" of Hitler — only to be "attacked" later? Did our Congress and Senate foresee another war with Germany? Did John L. Lewis foresee a Roosevelt victory at the polls when he staked his leadership in the C.I.O. on the outcome of a Willkie success? Did Hitler foresee that Berlin *would* be bombed mercilessly? Can you foresee now that the "Atlantic Charter" will suffer a worse fate than Wilson's Fourteen Points? (Those who do are labeled by Roosevelt "unpatriotic"). Do you and I know what kind of a world we are going to live in five or ten years hence? Then, how can anyone foretell market movements ten years from now month by month? I find it more profitable and more practical to evaluate the political and economic situation *at every market obstacle,* such as 158-174 and 194. I will make my decisions as I get there — *at the "obstacle."* To guide me I will have the benefit of "market action," plus "contemporary history," common sense and more common sense.

Returning again to the Averages, all one can say *definitely* at the present time is that inasmuch as 194 was a *resistance point for seven long years —it is to be assumed that it will be a "tough one" to pass.* (Inflation and the lowering of the purchasing power of the U.S. dollar can, however, easily surmount that hurdle.) Once again we make use of our previous reasoning.

You will find in referring to charts that the range between 165 and 194 was *crowded with market activity* which began as far back as 1936. Do not be surprised then to find that a number of traders having purchased in 1936 (at around 165) rode with their stocks up to 194 in 1937 without taking profits — then rode down through the 1938 and 1942 lows without selling out. Following the same reasoning, you can assume that anyone who purchased in 1937 at 194 and held on through 1937 and 1941 is not a good trader. Very likely, by this time he is disgusted and weary of the market. Certainly, it was most unprofitable for him to hold on for seven solid years and, consequently, he may want to sell out when 194 is again reached; heave a sigh of relief and forget the market.

Assume also that this type of trader has made no progress in market theory and technique. (My experience has been that very few leopards change their spots.) Such a trader is still as unenlightened marketwise as he was when he first began. While you and I may look forward to 293 on the Dow-Jones Averages by 1949-1950 — *he is unable to see it. The result will be that a good deal of stock will be for sale at the* 194 *level.* Good traders who will buy on a penetration of 160 upward will want to cash the "paper" profits when 194 is approached. *That again will bring in supply. For all practical purposes than you should sell out and take your profits between* 190 *and* 192. *(A few points ahead of them.)*

There may be a possibility (although not a probability) that the market will shoot through 194 like a rocket — after you sell out at 192 — and leave you "hanging on a limb." I would take that chance as I can re-enter the market (for the move up to 293) when it goes over 200, or even sooner. Considered in the light of charts from 1936 to 1943, logic and common sense *indicates that* 194 *will be a very strong resistance point with much supply available from both long and short sales executed at* 194 *by those who expect a good reaction.*

By selling at 192 you will find yourself in an advantageous position. The market will have a good-sized reaction at 194. (It may even go back to "*test*" 93 before attempting 100 more points on the upside.)

In the event that the market avdances close to 194, it is well to bear in mind that the market will have discounted "inflation" to some degree. Thus, you can assume that at the 194 level we shall at least have one-third retracement reaction. In other words, having sold out close to 194, you should expect the market to come down to 160-158. The distance of the retracement naturally depends on business and political conditions as they will then be — and as they are expected to be months or years after 194 is reached. Should a "third world war" be groomed — (yes, I know, this is the war to end *all* wars) — or should factors arise which will block a further advance of either prosperity (taxes) or inflation (government subsidies and controls) — you can expect a full retracement (to 93) or more. Should we undertake to see to it that "freedom from want" becomes universal all over the world (or even only in this country) — and we in the U. S. providing the food and materials necessary for this colossal program, footing the bill through taxation of our own people — then the market can become quite reactionary. It may want to "test" 40 again (1932 low).

Of course, all of the above is based first of all on the market negotiating 160. At this writing (September, 1943) it is still laboring below the 158 level — *which is the first market objective.* For some time to come, and for all practical purposes, *keep your eye on* 158 *and not on* 194. (The market, of course, did encounter its first obstacle in July, 1943, at 144-146.)

I think by this time you have a fairly clear conception of how to determine intermediate tops and bottoms. Good and safe trading can be done by intermediate trends. Minor trends are too dangerous — Major trends are too uncertain and too much of a gamble on a "future" which may be quite different from orthodox expectations. Those who "know the ropes" can avail themselves of additional safer and greater profits (through intermediate trading) as compared to major trend investing. The intermediate trend has an advantage over minor trend trading in that it does not require the constant attention of minor trend trading. There are less heartaches and headaches. The minor trend fluctuates more or less wildly — seemingly without

rhyme or reason. Furthermore, *the intermediate trend allows for trading by the Averages,* and by charts of individual stocks. Chart "reading" is far from perfect with the minor trend and very uncertain when "majoring". Minor and Major are the two "extremes" of trading. To adopt a middle-of-the-road course is always prudent. Intermediate trading is the answer.

It is fitting that we should now turn our attention to individual issues and determine how to foretell tops and bottoms (on intermediate and minor trading) in the various stocks you buy and sell. This problem will be a little more difficult, but I shall do my best to make known to you the methods employed. When this is completed, I shall return to the problem of determining mechanically the intermediate and major trends.

A chart tells the future of a stock — frequently with a great deal of precision indicating tops and bottoms. While the Averages reflect the market as a whole — and this you must watch — it stands to reason that you cannot buy the "Averages". In order to profit *you must buy a particular stock* which is either within or outside the stocks which constitute the Averages. Consider, also, that while the Averages as a whole may have advanced, let us say 10%, some stocks may have made no progress at all, or may even have receded. A positive demonstration of this fact was revealed in the action of certain groups of stocks during the early part of the war "boom". Steels, coppers, and other "war babies" advanced while many good stocks, especially those paying dividends (and consumer goods stocks), declined or stood still. During 1942-1943 the opposite was true. The market was discounting peace and not war.

Obviously, then, if you are to profit marketwise you must know beforehand in which group of stocks to trade for the sharpest advance. The next step is to select one or two stocks from each group. Just as you cannot "buy the Averages" you cannot buy a "group" of stocks in a lump sum. *The process of selecting is just as important as determining tops and bottoms.* Knowing the bottom on an issue which makes no advance does you no good. It is like knowing a beautiful and intelligent woman who to our sorrow is "dead to the world." The problem of selecting groups and the stocks to trade in within those groups will be discussed later. At present we will confine our-

selves to determining methods of trading on minor and intermediate trends in individual stocks. Charts are absolutely essential for this purpose.

Study charts (past history) carefully, as they will help you materially in following future movements on other issues. But do not assume for a moment that you can judge the future moves of a stock by charts of the past. While the character, velocity, etc., of the move may be alike — it will not follow the same angles, resistance points and trend lines. Likewise, do not allow yourself to be misguided by the previous high point of a stock. The fact that it made that point once does not mean that it will do so again. Conditions change. Instead of your stock being rated as of a *coming industry* with a good future — it may have long since "matured" and, therefore, be doomed to gradual decline. The same reasoning prevails for the "low" of a stock. *It can go down to zero* and vice versa — it may not register the previous low point again. The status of that stock or industry may have improved meanwhile.

* * * *

The superior man, while there is anything he has not studied, or while in what he has studied there is anything he cannot understand, will not intermit his labour. While there is anything he has not inquired about, or anything in what he has inquired about which he does not know, he will not intermit his labor . . . If another man succeeded by one effort, he will use a hundred efforts. If another man succeeded by ten efforts, he will use a thousand. Let a man proceed in this way, and, though dull, he will surely become intelligent; though weak, he will surely become strong.

—— (Confucianist Scriptures)

CHAPTER XI

"Channels" and "Lines"

REGARD the stock market in general and each stock in particular in terms of a moving train. This is a pertinent simile. A train can go backward and forward—and so can a stock. A train can travel 100 miles per hour and also two miles—and so can a stock. A train blows off steam when the boiler gets overheated—and so does a stock. A train has a lot of water in it—and so have many stocks.

Thus, in thinking of the stock market in terms of a train on tracks, you quickly become aware of the consequences when a train leaves the tracks. *It is vital that your stocks and Averages travel within tracks which you outline for them. Place your stocks or the Averages within a track with the expectation that they will travel within those boundaries.*

A fast-moving train going from New York to Chicago will make important stops on the way, such as Albany, Rochester, Buffalo, Cleveland, Toledo, etc. No matter how fast the movement, your stocks also will make important stops en route before reaching their destination. These stops are called *resistance points.* And because an express train makes stops at important points only — *build the tracks for your stock at important points only.* Construct two rails, an upper and lower. Since all charts travel from left to right — build your tracks accordingly. (This may be rather confusing so far, but read on to the end of this chapter, and then re-read the entire chapter once more.)

Before constructing a track we must have points of contact to anchor it. In other words, there must be "ties". While railroad ties are laid horizontally and evenly—stock market ties are laid out vertically at an angle — depending on the habits of the stock and the particular trend. Before you begin to build a track you must have three points of "action." There must be a move upward diagonally, a move downward and another upward move, or vice versa. This naturally

forms the basis for a triangle. Begin to lay the rail by connecting the two finished moves of the triangle. If a rising market is in progress, the first line extends upward. The corrective down movement develops from the peak of the first line. This is merely "testing" and not the main movement because it stops short of the beginning of the first line.

For example: The Averages moved up from 121 to 128¾ and then moved down to 125¼. Thus, you have two "exposed points" – one at 121 and the other at 125¼. This is the beginning of your trend. *Anchor it.* Your next step is to *draw a parallel line* from these two points to the top, 128¾. Continue to extend these trend lines as the market develops, guiding yourself by the lower track formation as designated by the market moves downward. This procedure in an up movement only. You will recognize an up movement by the fact that the second and consequent bottom lines are higher than the previous ones. Theoretically, this is the track on which your stock should travel.

In an upward movement the minor resistance point for this particular stock, or the Averages, is when it reaches the upward rail. Usually this is a good time for the minor trend trader to take profits. Conversely, it is usually a good time to buy (for the minor trend) when it reaches the downward track. Until "further notice", assume that the stock or the Averages will travel within the track outlined by you months in advance on your charts.

Frequently, a stock will go out of its tracks upward for a few points and then begin the downward path into its track ("overflow"). Generally, however, such movement denotes a strong position. If a stock does not reach the very top of the upper track – it is proof of weakness. In reverse, apply the same principle to the downward movement. When stocks pierce the lower rail it is a sign of weakness. However, this can be nothing more than a "false move" and an "overflow." Whenever this happens, however, your new track should be rebuilt from the stopping point on the "false move". *The stock is creating a new track for itself.*

When a stock (or the Averages) reaches the bottom rail on your track, it is then the safest time to buy as it will most likely go up from that point. Should it drop a point or two, however, out of the bottom

rail, assume that it will continue in that direction because weakness is indicated. If you purchased stock at the bottom line — figuring correctly that it should travel within the track upward (which it did not do) — recuperate your losses by selling double the quantity you originally bought — (100 long stocks and 100 sold short). By selling an even quantity short you can recover the losses incurred on the purchase at the bottom of the track.

When holding a stock (which you did not sell when it reached the top of the track) and stock penetrates the track on the upside — hold on and let it ride as far as it will carry. It is to be assumed that your stock is in the process of building a new upward track. There is no way of telling exactly how far the stock will go. (Later on we will tell you of ways and means of determining the point of advance, as the "track theory" is not designed for this.)

Watch your stock when it comes close to the upward rail. It is fairly safe to sell stocks short at that point, with a stop-loss 1 or 2 points above the upper rail. You are taking the chance that the stock will move out of its tracks on the upward side, but it is safe to assume that such a procedure is unlikely because "theoretically" it should travel within that track. If it should pierce the upward side of the track line 1 or 2 points — cover your shorts. In most cases you can recuperate your losses by buying a double amount of the stock you sold short — assuming that once it emerges out of its upward track (on the up-side) — it will continue the up move. You have lost 2 points on the short side, and the only way you can quickly balance the loss is to buy an equal amount of shares — on the presumption that it will rise another 2 or 3 points. *The above is for minor trend trading only.*

Sell out only when you notice a top forming or rounding out. The stock is then considered to be in a strong position because it has penetrated its track on the upward side. Should it react, however, returning once again into its track — penetrating a little below the upward rail — that is the time to sell short. Ride with it until it comes down to the bottom rail, at which point you should cover your shorts. (Remember, however, that by its action of penetrating the upper rail the stock showed "spirit of strength". That stock should not have been shorted. Use weak stocks for shorting.)

If a stock penetrates the bottom rail for a point or two, and you notice that it is suddenly climbing up into its track again (penetrating the bottom rail upward a point or two in its sudden spurt) — that is the time to cover your shorts, purchasing an even amount for the upward move which should exhaust itself when reaching the upward rail again (and vice versa).

Should stocks (or the Averages) go out of their upward track and begin to build a downward one — example: your stock was 145 and moved down to 136, then up to 144, and in its move finally registered 143 or 142 — draw a minor trend line connecting all these lower tops and bottoms. For the present assume that this is the minor trend. It is then advisable to sell short when the stock (or Averages) rises to the upper line of the new descending track. It is also advisable to cover shorts and to repurchase should the stock reach the bottom of your newly constructed track. *(All of the preceding for the minor trend trader.)*

In their downward trend should your stocks (or the Averages) penetrate the minor bottom rail which you have previously drawn from the following points — 136, 134, 129 — then this is a good time to sell short again, although you covered your shorts at the penetration point of the bottom line of the main trend. This indicates that the minor trend is developing into an intermediate (or major) down trend. This short position should be covered again, however, and long purchases made should the stock (or the Averages) re-enter that point of the minor trend where it intersects the bottom line of the intermediate trend. This should lead you to assume that the main trend is still in force and, therefore, shorts should be covered and new purchases made to be held until the minor trend upper rail is reached. Should the stock (or the Averages) penetrate this upward rail in your minor track — additional purchases should be made for a rise until the stock (or the Averages) reaches the upper line of the main upward trend. (Note: Follow all movements on actual charts to properly visualize my meaning. If it is not clear at first — repeat the process step by step.)

You have learned by this time that stocks travel in tracks. (An upper and lower rail line comprises a track.) Theoretially, a *stock should not depart from its designated route.* I lay these tracks out

months and years beforehand, and usually the stocks travel within them for some distance ahead — at times for years to come. My personal charts of the Averages, drawn ahead from 1937 to 1943, have never violated the tracks laid out by me for these six years. When (in 1943) they *were* "derailed" (at 130) — it was a signal for the Bull market — the reverse of the 1937 debacle — and a move to 293 was foretold by my charts. This fact was then communicated to my clientele in my weekly Market Surveys.

Only in abnormal periods do stocks penetrate their tracks — either upward or downward — with a *sharp, straight, perpendicular line.* During September, 1939, and again in November, 1940, shares in the "war baby" class "left" their tracks *for a straight vertical line. An abnormal "overflow" of optimism or pessimism is the propelling force which causes a stock to leave its track for a vertical line. It is then impossible to "read" the resulting formation.* If it is a straight line upward, a "flag" forms developing what we call a "flagpole" formation. When a "flag" is out it is best to be on the sidelines.

During October, 1939, many stocks displayed this type of pattern which usually conveys that they are awaiting further developments outside of their own sphere of influence in order to complete the picture. The "flagpole" rarely results in a further upward formation. Another pole downward most likely will develop. Thus, the picture takes the shape of a "canopy" and the "abortive" move is over. The forces which called for the upward move have been discounted by a similar downward move. Flag formations (with a six-foot pole) are rare, and we shall, therefore, confine ourselves to normal stock movements.

I stated previously that every chart picture has a psychological reason behind it. Just as a psychiatrist can analyze the human mentality through certain manifestations of behavior — so chart pictures can be read in the same way. To become a successful trader, think in terms of the *reasons* behind the picture. The picture will gradually suggest the reason automatically and will in due time be the motivating factor for action. But "psychology" is the propelling force because *these configurations are human and alive and are the result of thinking.* Do not trade on the symptoms of a chart unless you can "read" and understand the picture. Imagine that it is the picture of a human

being and that you are attempting to read his (most likely her) character. But unlike reading character in human beings and ascribing to them virtues and traits which they do not possess — you must be factual when it comes to stocks and refrain from "flattering" them. A stock does not succumb to flattery. On the contrary, if you did not "read" its character correctly — it will punish you with a monetary loss.

When charts form a continuous zig-zag *upward* direction with higher tops and bottoms — then we are obviously in an up trend. Until such time as a similar formation of top and bottom zig-zags is formed *downward* — the trend will continue to be Bullish. Your aim, however, should be to become so perfect in your reading of charts that you will catch the end of a Bull market "on the head", or by a point or two. If you are digesting my Market Surveys, you know that this can be done. I do not wait for "downward formations" to tell me that the move is over. I aim to get it at the top rail.

Now for a resume of the above: Proceeding on the assumption that a stock has just completed a downward movement and is beginning the formation of an upward zig-zag — begin channeling its movement by connecting the first two zig-zag bottoms with a pencil line. Connect bottom #1 (the lower) with bottom #2 (the higher). Naturally, there must be both a lower and a higher bottom before an upward movement can begin. If the two bottoms (#1 and #2) are alike — then it is a double bottom in a "base formation" — and *not an upward move.* If bottom #2 is lower than #1 (even by 1/8 point) — then it is a continuation of the downward move with no "base formation" in sight. *Do not channel anything which is not plainly seen.* Imagination does not enter into the picture. The only time you begin channeling an upward movement is when two bottoms are plainly shown on the chart (the last one higher). Extend the pencil line several inches to the right beyond the second bottom. After the two higher bottoms have been connected draw a *parallel* line connecting the top (using a parallel ruler). Top #2 should be higher than top #1 — *otherwise it is not an upward movement but a double top formation,* which signifies that the stock cannot go higher. The top channeling should be *parallel* to the bottom channeling. In other words, if the distance between top #1 and bottom #2 (at an angle) is 2 1/4

inches — see to it that the line is drawn so that the entire channel should be 2¼ inches in width (at an angle, of course). (A parallel ruler will automatically do it.)

Charting the stock's movements should continue by posting the daily highs and lows until a third bottom develops. (My chartists use red pencil for lows — black pencil for highs). You will recognize this third bottom by the fact that the stock has begun a move in the opposite direction (upward). Under normal conditions you will find that bottoms #3 and #4 will follow the exact outline you began between #1 and #2. Ordinarily, the channeling you extend from bottom #1 or #2 in advance will harness within it bottoms #3 and #4. The upward move will continue in that channel as long as conditions remain normal and favorable for the upward move. *Weakness in a stock is shown when the down move begins before the stock reaches the upper line. Strength in a stock is shown when the upward move begins before the downward move reaches the bottom line. Expect reversal at #5 top or bottom.*

I shall endeavor to give you a "live" recent example. In fact, most or perhaps all of my "examples" are *real* — taken from my charts of market action. Even examples which I refer to in this book as "looking backward" and "fantastic" are *real,* "true stories". The "live" example I shall give you are the Averages from around March and April, 1942, to September, 1943. I am "reading" my personal charts for you. The dates given may not be "on the head", but the picture is exact.

Around April 10th, 1942, the market was in a downward trend and I was waiting with anxiety for my prediction of 93 to materialize. In my profession a prediction which materializes is a "feather" to add. It increases one's confidence. About May 2nd the market made its low of 92.75 (or thereabouts). It began to advane. Confident that this was bottom, I began drawing a line for my *upward trend.* Do not forget that up to this date the market for over a year was in an intermediate *down* trend. It was necessary to draw absolute and complete *new upward channels* for an upward track. Where to begin? I could not wait a few months and give the market itself that job. My clients expect definite advice and I had to know the degree of angle of the advance, and where to expect reactions (minor).

However, in that respect I was in a much better position than you because my charts are continually kept up and the past history is what tells me the story. So I reverse the instructions given you in this chapter and go backward on my charts.

I note that between March 14 and April 18, 1942, the market came up three times to around 103 and did not go higher. From there it came down to 93. I measure the distance (with a ruler) from 93 to 103 and I have two points of angular contact. The top of the channel is 103 — the bottom 93. I draw my lines straight up for months ahead at that angle. The height of the channel is 10 points. The angle of the channel is the angle in "time" between 103 and 93.

Did the market bear me out? Follow the story as I read from my charts. Around June 13 the market came up to my upper rail (on the nose) and had a recession. Again on June 20 — and again around July 15. At no time did the market violate my channel. By July 15 I already had the *three* required points of contact in this upward move which verified my contention that the channel was built properly by me around May — although at that time I had only *two* points of contact, one of which was a "leg" in the previous *downward* move. In August-September, 1942, at 104-105, the market came down *exactly* to my bottom line of the track and did not violate it. In April, 1943, the market again confirmed my channel by coming up to 134.

From then on the market itself began giving signals of "overflow". The move was not "healthy" any more. Too much optimism. However, according to rules given in these pages, I "raised" my channel about one inch. The market followed that *new* channel religiously. It confirmed my opinion at 144. But it was ¼ point short of the top. I saw weakness. It corroborated my advice to clients given months previously that 144 is *tops*. The market reached 146, but here it was already 2 points below the upper channel line. By then weakness was plainly visible. I insisted that clients cash all the good profits from way down. My stop-loss was raised to 141. At this writing (Sept. 1943) the market violated the bottom line of the channel by coming down to 134-138.

The above figures can be visualized more clearly by you if you have a chart of the Dow-Jones Averages before you. They can readily be secured.

It is of primary importance to channel market moves in tracks according to the method described. Begin an up move with zig-zag *bottoms* and parallel the zig-zag *tops* with it. *In a down market the process is reversed. Begin by channeling the zig-zag tops and parallel the zig-zag bottoms with it.* The up and down formations within the channel are in most cases of "standard" dimensions and, in fact, portray the character of the particular stock or its "backers". A stock such as American Radiator in the $10 class will not develop a channel running 18 points in either direction. But this is of little importance for charting purposes, as the channel is constructed by *actual stock movements.* If American Radiator should experience a move of 18 points up ond down — follow the move in your channeling just as a printer follows his "copy" (even through the window). That rarely happens, however, unless it be a "flag formation".

Visualize stocks as something with a soul and spirit — alive, active and sensitive — and not as pieces of paper tossed up and down by the tape without rhyme or reason — happiness or pain. Within the movement of the stock is reflected not only the hopes, aspirations and psychology of countless stockholders — but the character of its "boss". Most stocks have "bosses" (angels, sponsors, promoters, speculators, insiders, backers, etc.). Morgan "they say", was the boss of Steel. *Those who are interested in particular issues operate on a specific plan commensurate with their character and ambitions.*

Stocks are in an up and down movement most of the time. And why? Simply because that is the underlying basis of our economic structure. A shoe store proprietor or manager operates on the principle of buying shoes at low prices (wholesale) and re-selling at higher prices (retail). When shelves are empty he purchases again at lower prices (wholesale) so as to repeat the process again. In modern distribution the process is continuous. As soon as "inventories" run short of size 10½ shoes, for example, that size is re-ordered so as to be in a position to re-sell again.

There is, however, one basic difference. Shoes are bought, worn and thrown away. New shoes have to be manufactured to replace those sold. A shopkeeper does not buy back from the consumer the shoes he sold, but orders new shoes from the factory. In the stock market *new stocks* are rarely issued. *The operator (shopkeeper) can*

only continue in business by re-purchasing the very stocks he once sold. It is, therefore, a part of his "regular" business not only to sell at a profit — but *he must re-purchase the very stock he sold at lower prices than those at which his customers bought them from him;* otherwise, he cannot hope to remain in business because of lack of shoes (stock) to sell. *This takes time.* The operator requires two psychological periods of opposite dimensions — a favorable one for selling at high prices — a sad and depressed period for buying back at low prices. He must wait patiently for both periods because he has no way of creating them — and since the advance of the SEC he has few ways left for hastening the process (manipulation).

In exceptional markets, as for instance 1920-1929, the same operator who sold in the range between 50 and 100 at a profit found himself without stocks on his "shelves" when the price reached 125. Realizing that a push up to 300 was probable, the operator (seller) became a purchaser at the 125 level in order to re-sell at the 200 or 300 level. The operator "lost control" and the public, taking the market into its own hands by indiscriminate bidding, *forced the operator to re-purchase stock at higher levels than those at which the operator sold them in the first place. But these are exceptional instances.* Best not to count on them.

Normally, the operator (or professional good trader "you" or "they") accumulates a line of stock on a scale down and when the psychological "time" is ripe begins to fill public demand at increasingly higher prices. By the time he has sold out his "line" the market has discounted the improvement in business and prices react downward. *The buyers then become sellers and the operator proceeds to* buy back at constantly lower prices. If there are any anxious buyers — and there are always bargain-hunters — he "lets them have it." These buyers will sell out later, either by placing stop-loss orders 3 or 5 points below, or by riding down on the toboggan all the way — or by margin impairment — or by selling higher at a profit. The operators take stocks on a scale down; otherwise, panic would ensue.

From the above you can readily see that the price you pay for a stock is "relatively" of no importance. Some time past you bought Pepsi-Cola at 20 and sold at 44 — now you are paying more and you will sell at 58. This is another reason why you should not buy stocks

because they are "cheap". It is not what you pay for them that matters — but what you can sell them for. If inflation comes, Pepsi may sell for 175. You will not put ashes on your head and mourn the day you could have bought Pepsi at 18 (on my recommendation). You will buy at 125 and sell at 175.

It is now evident to you why certain stocks do not keep "time" with the general market movement. The operators may have completed accumulation or distribution of their particular stock earlier than the rest. Frequently, due to adverse business or psychological effects on a particular group of stocks, they are not in "line" to move up. For instance, the motion picture stocks, because outlets in European countries were shut off due to the war, dropped at a time when the "war babies" advanced. Obviously, you would not expect the operator or promoter of Loew's to begin a distributing campaign under unfavorable economic and psychological conditions. *Consequently, this period had to be one of accumulation* instead of distribution, and the operator was greatly favored by the fact that vast numbers of stockholders got out of Loew's, preferring other issues while war was in progress. Thus, selling at lower prices placed the operator in a position to accumulate shares. The psychology based on the coming of peace will cause "war babies" and other stocks which shot up to tumble and they will soon be in an accumulation period again. Motion picture stocks, on the contrary, rose with Loew's and others in that group (in 1943) and were in a distribution instead of an accumulation period. (Paramount in April, 1941, was already in the mark-up period.)

I am specifically elaborating on the details of market operation because a full understanding of the psychological factors behind the market is of far greater importance than any definite "yardstick" which can be used to calculate these movements. There are over 30,000,000 automobile drivers in the country. Most of them know nothing about an automobile aside from "pushing" the three pedals and levers. They enjoy their driving, but there is no comparison to the enjoyment derived from a car driven by a man who understands the intricate workings of it. The hum of the motor — if properly tuned — is like music to him. For one thing, he always feels sure of himself. Should the car fail to function properly he will know within

five minutes exactly what is wrong with it. Once he knows what is wrong it is a comparatively simple matter to adjust it — or at least to be able to drive it to the nearest repair station.

In the stock market it is the same story. Most of the traders know nothing about it and are always on edge "lest it drop." Some of my good subscribers go away for months and still have the market "under control" because they understand it — and once "understanding" is boss — fear and uncertainty vanish. For nine months I traded by "cable" from the Nazereth Hills and Jerusalem. At breakfast time (7:00 A. M.) my short-wave radio set picked up market quotations which were broadcast from the General Electric Company in Schenectady, New York (at 11:00 P. M.). I made more profits that year than the next when I came back to the States.

You can become a better trader by being able to foresee coming events — "which cast their shadow" — and act before they materialize. Learn to "visualize" a chart before it is born and given life. "Conception" is one of God's blessings. The "birth" comes in due time. (A bachelor cannot dream of having children.)

Trading on minor movements does not necessarily imply that you take advantage of every up and down movement. On several occasions, I have stressed that by such procedure you will finally end up with the broker having most of your money in the form of commissions. Separate the negative from the positive factors — the negative being your losses — the positive your profits. Add commissions and taxes to the small profits in minor trading and you have another negative factor. While on the surface this may seem small, it assumes large proportions in the long run.

Recently I had occasion to examine a short swing account and found that the profits were $2400 and the losses $2200. The broker got the lion's share in commissions. It is a matter of simple arithmetic. If you pay $50 commission on a purchase of 100 shares with a resulting 5-point profit — your "expenses" represent only 10%. But if you negotiate trades in which your average profit is one point, your commission consumes 50% of the profits. Obviously, this will not increase your cash resources because you also have an additional 50% in commission to add on the losing side, even if you confine your losses to one point. When I refer to minor swings it must be

understood, therefore, that the profit expectation is at least 4 to 5 points, and with this in mind I will proceed to discuss minor trend trading.

With the belief that everything is "under control" with conditions normal and your stock and the Dow-Jones Averages in an upward trend channel — *take note of the line of resistance.* Just suppose that U. S. Steel has reached 82⅜ in its upward move and you observe it coming down to 70½. You decide to buy because just a few weeks before Steel advanced to 82⅜ precisely from that point. With logical deductions you figure that 70½ is a "double bottom" and that Steel should be bought.

After a brief lapse, Steel rises to 80⅝. You do not expect it to register 82⅜ because at that point it should encounter resistance due to its rapid advance, and the fact that it previously went down from that point. Consequently, you do not wait for 82⅜ but sell "at market". The following day connect the 82⅜ point diagonally with the 80⅝ point. Extend a pencil line several inches beyond and you can then visualize lower tops. Due to its rapid advance you can expect a "consolidation" at this point. Some facts are available, namely, the 82⅜ and 80⅝ top formations.

Observing Steel for several days, you note it is receding to 78⅞ — then going up to only 79¾ — more lower tops. At this point you decide rightly to go short. In doing so you place a stop-loss order at 83⅛. A stop could be placed at 82½ as "X" (Steel) did not reach this point on the previous move up. But why take chances? They may catch your stop-loss at this juncture; therefore, play safe by placing a stop-loss at 83⅛. And at this point you not only place a stop-loss for the 100 shares sold short, but also place an order to purchase 100 extra shares. These 100 extra shares are to compensate you for a possible loss on the short sale executed at 79¾. If Steel is strong enough to make 83⅛, you calculate correctly that it should at least go to 85⅝. The reason for 85⅝ is because a stock in the price range of "X", in moving out from a previous top (such as 82⅜) to new high ground should at least produce 3¼ points of "carry-over" to its credit. Add 3¼ to 82⅜ and the sum total is 85⅝. If it cannot produce 3¼ points the move is "phoney" and a reaction should be expected to test previous low ground.

Having placed your stop-loss at 83⅛ (and the reason for making it ⅛ point higher than 83 is because stocks have difficulty in making "even" points such as 83, 84, 85 — therefore, ⅛ point above or below an even number gives more security), you then watch "X" going all the way down to 73½. At this point your short on "X" is not yet covered because you expect it to come down again to 70½. But "X" meanwhile worked its way back to 78½ — another lower top. Steel thus shows successively lower tops, namely, 82⅜, 80⅝, 79¾ and 78½. At this juncture you should (if financially able) sell another 100 shares short, figuring on covering at 73½. Steel fulfilled your expectations by coming down to 73 and you covered, as decided beforehand. The process is again to be reversed. At 73 you should not only cover short — but buy another 100 or 200 shares to ride up with.

Where would I sell out? I would watch 78½, the previous lowest top. Steel actually comes up to 78½ (not going any higher), at which point long stocks are sold and short positions taken once again. Watch the 73 point. Steel slips back to 73¼ and, assuming that when Steel hovers between 74 and 73 you are not out for the "last drop", you give orders to sell and buy at market. Instead of 73 you get 73½, and again you repeat the process of going long.

Mind, I am reading the actual chart of U. S. Steel backward after the event and I do not presume for a moment that all moves can be followed exactly as laid out. I am *not* teaching "magic".

Take note that while I described the top formation little has been said about the bottom formation. It is essential that you watch that, too. Observe that while "X" registered lower tops on the chart, it also formed higher bottoms. A formation of lower tops and higher bottoms is what we call a "Triangle". That is always dangerous, interesting and full of dynamite. A triangle, as I have already explained, is caused by the "balanced" difference of opinion among traders. Both sellers and buyers are stubborn and reluctant to give way. Chartwise, this results in a continual narrowing of the trading range. Observe the track. First, trading range began between 82 and 70. Next, trading range was between 79 and 73. Trading range on October 14, 1939, narrowed down to between 74½ and 75. Something had to happen, you must agree. U. S. Steel cannot much longer move in a one-point range. Some event of importance in the social, political or economic scene finally breaks up the triangle.

As already pointed out, at their best rules can only serve as guides. If one knows his way about the rules submitted will help his trading materially. Never expect to trade profitably just by following blindly certain rules. "They", too, know all the rules (and know them by heart). A full conception of the entire picture must be before you if your goal is to be accomplished.

Note that I am not attempting to present the "gospel truth"; neither do I "promise results". Much or all depends on your make-up, character and "fitness" for market trading. If you have absorbed only half of the "theories" and practical trading methods presented so far — your trading will be successful. But remember, a physician must *practice* before he can utilize what he has learned from "books". Ill health, drink, a nagging wife or husband, greediness, gambling instincts may influence you, and then my teachings cannot take root. This book is written for normal, healthy, sound-of-body-and-mind individuals. It is for the few and not for the many. Trade on "paper" (not cash) — serve an apprenticeship and do "intern" work — and then see how much of this book has really "registered". If you can show good results by trading on "paper" — you can then follow up with cash transactions.

The principle to follow in an upward move after a stock is charted in a channel is to *sell and take profits every time it reaches the upward line of the channel.* At that point it can also be sold short. *Short sales, however, are not recommended if market is in a Bull trend.* Bear in mind that a stock can be in the process of forming an upper channel and still not be in a Bull trend or Bull market. *The upward channel can be a reaction (rally) in a Bear market.* In that event, *sell short when stock reaches upper line of upward channel — but do not buy at lower line of channel.* Vice versa, if stock is in an upward trend in a Bull market, it is foolish and risky to sell short when upward channel is reached, as one of two things may happen: it may either get out of its channel in a further upward direction (flag formation) in which case you would incur heavy losses — or it may react very little downward with the result that you will have very little profit. Therefore, buy more stock at or close to lower line of channel — but do not sell short at the upper line.

In a Bull market it can be presumed that the upward channel will

continue. If any appreciable downward moves are formed — it can be supposed that the reaction from upper to lower line of channel is a normal retracement, and no more. Therefore, *it is logical (at the lower part of the channel) to buy for the move up to upper line of channel because as long as tops mount successively higher than previous tops stock remains in an upward trend.* This indicates progress on its way up. *However, should it create a lower bottom this would indicate danger. Previous downward resistance point should then be watched closely.* If previous bottom was 82 and stock came to a halt at 82 or 82½, no particular danger is present even though stock went out of channel downward. *But should a new bottom form at 81½ danger is at hand. It means that a change in trend is coming.* This will later be confirmed by the top made on its advance, which should be closely noted. If it exceeds previous top — "all is well". *But if it stops below previous top — or comes up to previous top without penetrating it upward — then the picture is forming a "double top". Should this be accompanied by lower bottom — danger is involved.* Longs should be sold out and a short position taken. This short position, however, should not be covered when reaching the lower line of upward channel but should be given a chance to go lower, and no doubt it will if the circumstances described above (lower bottom and lower or even top) prevail.

From the above you can see that in intermediate trend trading, if stop-loss protection is resorted to (whether mental or actual) — stop-losses should be placed on short sales a few points above upper channel line or above previous high top. Ordinarily, if you trade short at 82½ and place a stop-loss at 83½ (1 point above the upper channel line) — also place a purchase order at the 83½ point so as to be in a position to recuperate losses and automatically be on the long side should stock advance through its upper channel line.

The "technical" condition of a stock can be determined by the depth of reaction within the channel. For instance, if the up move reaches or slightly over-reaches the upward channel line — and the down move does not reach the very bottom channel line but turns around midway and advances again to top channel line — that manifests strength. Apparently, some one is buying on the reaction, giving the issue good support. If stock reaches bottom line of channel, or

goes under it slightly and does not reach upward line of channel on its up move, that would show pressure of selling.

In charting stocks you will find that some develop a straight horizontal rather than a diagonal up or down channel. Usually these stocks are "dead" and should, therefore, be let alone. The only stocks you should be interested in buying are those which show activity by being in a diagonal channel, and "the more activity the better."

As you continue charting an upward channel you will notice at times that double or triple tops have developed. The stock does not want to go any higher. You may also notice a "head and shoulder" formation. *These symptoms by themselves show downward trends. Sell out your long stocks under such circumstances.* When downward line of upper channel is penetrated that is the first signal of a downward market, and you can begin then and there to draw a downward channel. That, moreover, is a safe place to sell stocks short (preferably, however, on the first rally).

In other words, when double or triple tops, "head and shoulder" tops formation, or lower tops are observed in upward channel — *watch for the signal when stock leaves upward channel entirely.* It may at times even turn around and make a move upward of several points (a good place to short) — and then again at other times it will come straight down. *In trading short at this point, place a stop-loss* 1 *or* 2 *points above upper line of upward channel.* In all probability, it will never reach the upward line. A move downward of good proportion is developing. *Get in right at the top when the risk is small.*

As mentioned heretofore, however, you should aim to become so proficient in "reading" market action to be able to foretell a top formation by the various signals given *at the top.* Waiting for the downward line to be pierced through is playing safe, but it is very costly in points lost between top of channel and bottom line. On high-priced stocks the width of the channel may be 6 or 10 points. A good move in itself. In my market recommendations to clients I rarely wait for the bottom line of the channel to break. I draw minor trend lines to the "head" of the top and when the "neck" is cut through by my minor trend line, I advise them to get out. In July, 1943, the "neck" of the Averages was cut off at 142. My advice to clients was to sell on a stop-loss at 141. Were I to wait until the bottom line of

channel had broken it indicated to sell out at 136 — a loss of 5 points on the Averages. Individual stocks can lose 10 or more points during the same period.

As downward channel begins to form (you know by this time the rules of how to draw the lines on the downward channel) do not expect shares to "fall out of bed". It does not usually happen that way. Have patience. *Plenty of shares will be sold by insiders on the way down to those who do not see the major character of the move because they do not study technical market action — or do not know how to read charts.* Every reaction looks alike to them and naturally they hope (as they did before) that it will come back.

You have learned by this time that there is a considerable difference in the character of a reaction — even if it covers the same distance. The status of Steel previously presented in detail is a good example. Its first reaction was to 70½ and it did not reach that point again for quite a while. A registration of 70¼ or 69¾ in its chart formation would mean nothing to the average trader. He may reassure himself by saying that since Steel previously made 70½ and came back to 78½ — it will do so again. A drop of ¾ point below 70½ can even be interpreted as a "good omen" by uninformed traders because it is a greater "bargain". To technicians and traders who follow "theory", the penetration of 70½ by even ¼ point was significant. By that action the stock obliterated all of its previous immediate "history" and was searching for lower levels. New resistance points and new directions were in prospect. The stock eventually came down to 42.

In the world at large movements of sociological, political and economic natures are continually in progress. A movement may last for many years — *depending upon the soundness of the movement and its ideology when put alongside the contemporary economic system.* As soon as the new movement matures into "full historical bloom", a leveling-out period sets in — frequently resulting in deterioration of the forces. These social phenomena have a similarity to stock market movements. General Motors, U. S. Steel or other major corporations are really a "government" unto themselves, and their individual stock issues should be considered in that light. Their fate,

of course, is intertwined with the general structure of the country — the favorable or unfavorable attitude of the Administration to all that for which the corporate structure stands, etc.

Nevertheless, such a vast organization is an entity in itself because incorporated within it are all the vital elements of human behavior and society. It has "workers" comparable to the citizens of the United States. It has a government expressed by the Board of Directors, its By-Laws, Management, etc. It has a financial structure expressed by the money invested in it by the officers and the public at large. And it also has Economics because it produces goods used by the general public. It has law within limitations. It can hire or fire its employees at will. It can feed people by giving them work and wages. Likewise, it can starve them by depriving them of employment. It can make you (with your cooperation) a vice president at a salary of $100,000 a year — or it can retain you as bookkeeper for the rest of your life. It has "order", since the management can make use of special police to preserve its regulations by force. In the days before the New Deal large corporations were allowed to have miniature "arsenals" of weapons and tear gas in the event of trouble on their premises. (Lately, President Roosevelt, the New Deal and C.I.O. have taken over some of these powers, but by 1950 or sooner the corporations will have more power than ever.)

As an entity and economic power in itself the corporate issue goes through a market movement entirely dependent on conditions in that particular issue — based on business prospects and earnings in the present and near future.

This is what I mean when I stress that each stock has its own "technical" movement. Each issue travels in a track like the Dow-Jones Averages. The "angles" on the track are different, however. Weak shares will come near the line forming the upper channel and immediately begin a retreat toward the lower channel. The law of gravity toward *values* is the reason. They may even break through the lower channel downward and approach the previous low point *sooner than the others* — sometimes months in advance. Strong stocks will penetrate the upper channel upward for a few points and will not begin their downward descent in harmony with other stocks. They will "hold their own" even during a decline, and when the general mar-

ket advances they *will be the first to penetrate into upper territory.* The underlying movements are always the same.

Stocks are not to be held indefinitely — they should be bought to be sold. The point and time of selling may be different on various stocks but they should all be sold whenever their upward movement has been completed. From then on — due to new circumstances — the stock is ready for an adjustment to these newly-created factors in the corporate structure, or in the country at large, and should be sold to those who are willing to buy it — unaware of the coming changes.

The strength and weakness of a stock's movement can be judged by the *angle* of advance and decline which the channel forms on the chart. During the period of April-June, 1939, some stocks like Loft, for example, formed themselves in a channel of almost 180 degrees — while most others were at a 90-degree and some at a 30-degree angle. If you will, conceive of an issue dropping in a straight vertical line. This would show extreme weakness and would almost indicate a panic. Conversely, *when a stock is in a downward movement but moves horizontally chartwise — strength is demonstrated.* Apply the same reasoning to various degrees of angles in their diagonal formations upward or downward. *The steeper the advance, the stronger they are — the steeper the decline, the weaker they are.*

It is not mere accident when a stock advances beyond its channel. There are definite reasons and these are to be found in the economic condition of the corporation whose stock you chart. When the Dow-Jones Averages advance beyond their upper channel, it is also to be considered in that light. Moving out of the channel is due to political and economic events which make the market in general momentarily strong.

Do not expect shares of the same corporation to duplicate previous action on chart because that seldom happens. Even should the corporation be in the identical condition in which it was a few years ago — world conditions and the country have since undergone change which necessarily must have an effect on that issue. Additional markets caused by the natural growth of population, increase or decrease of foreign markets, new competition created by articles of substitution (Plastics 1942-43), or newly-created demands for such products as refrigeration, aviation, etc., can affect the issue you are charting — even

though these conditions may be far afield from this particular industry. One may have considered buying a home but instead decided to buy a "mosquito" airplane. Another may have thought of buying a new car but decided to "electronic" his home instead. Such decisions have an effect on every market issue when multiplied manifold.

By the same token *do not expect the Dow-Jones Averages to duplicate their action of a year or ten years before.* It is not for this reason that I stress charting stocks with reference to their behavior. *The past is forgotten.* It is only the present market move with which you are concerned — but that move has its "present" roots in the last culminating Bull markets of 1937 and 1929.

Accordingly, a stock should be charted from the beginning of 1937 (1928-1929 preferably) to date. This picture has its "high spots" and you need not refer to it daily. Once a month is sufficient. After all, it is the present move in which you are interested. The "high spots" for the Averages are as follows — (the figures are the approximate highs or lows):

194—March 1937
165—June 1937
98—March 1938
158—November 1938
93—April 1942
146—July 1943

The first requisite for creation of charts is similar to Jehovah's "plan" in creating the world. "In the beginning God created the Heaven and the Earth . . . " In the creation of charts there must be a top and bottom before you can begin to fill in and chart movements of stocks. Note that in Creation the top had to be divided from the bottom (Heaven from Earth). There is your channel. Note also that the Bible states: "And the Earth was without form and void . . . " (So is a stock without a chart.)

* * * *

That which hath been is now; and that which is to be hath already been; and God requireth that which is past.
—— (Ecclesiastes)

CHAPTER XII

Base Charts

IN THIS chapter I will explain the dynamics of my Base Charts and how they work in practice. It is as simple as ABC; crammed full of "theory" — sound and practical. Based on common sense, it is one tool which the average layman can grasp and trade by its implications.

To the average trader the stock market is a conglomeration of prices, figures and fluctuations, with Bull markets and Bear markets, profits and losses (mostly losses). As for the details, he cannot (does not want to) grasp them because of lack of training and intelligence on the subject.

You may have had occasion, no doubt, to visit a highly-organized industrial institution, *the details of which you knew little or nothing about.* For the purpose of discussion, let us assume that you made the rounds of a General Motors plant. Your observations (providing you are not familiar with that industry) most likely left you with no detailed estimate of the quality of fine precision work or highly integrated service. I had occasion to go through a large manufacturing plant with a friend who was totally unversed in industrial technique. In making the rounds we were shown the various processes and equipment. Like the "three wise monkeys", my friend "saw nothing", "heard nothing" and "said nothing". To him that vast plant was a mass of confusion and noise and he breathed a sigh of relief when he found himself outside.

The average market trader, too, is unable to "see the trees for the woods". He cannot comprehend the details and systematic operation of the market because of its immensity and complexity. Daily he notes pages filled with quotations — some "minus", some "plus", some "unchanged". Newspapers are full of rumors and comments of every nature and description — some true, some false, some neutral. It is difficult for him to distinguish one from another. This particular news item is inspired; this one is of interest, but in the

main they are all somewhat beyond him. Completely confused, he finally decides to "take a chance". What shall he buy? Most likely he is attracted to those stock issues which make the most "noise", and that is exactly where his troubles begin. When a stock draws a great deal of attention it is usually in "high places" and more than possible that good traders are quietly unloading.

To be able to see the trees despite the forest — to distinguish one direction from another — one must have a guide or range-finder with a conception of where things stand. *One should search for the moss around the trees.* In short — one must have intelligence on the subject.

In going through a motor factory if one hears only the rumbling of machines, it is quite apparent that one sees nothing and learns nothing. But if one is technically trained he cannot fail to discern the fixtures, dies, jigs and tools with which each machine is equipped, and which account for its high and accurate production.

Moreover, the technically trained men will also observe "gauges" and "standards" alongside each lathe, drill-press, shaper, milling machine, etc. *Regardless of how accurately the machine and fixtures were designed, it is not trusted blindly.* Every now and then an inspector will catch a "piece" off the machine, subjecting it to a test by the "go" and "no go" gauge. This gauge has narrow "limits" and the piece produced must be within these limits, or the *machine is stopped, checked, and again put into shape for accurate production.* The gauges in turn are checked by "master gauges" with variations of a millionth of an inch or less.

The Stock Exchange in many ways is comparable to the factory. If one does not understand its operation, all he can "take in" is the noise of the "market place". He sees all the "machinery" as one mass (or should I say mess) and, as such, it is not comprehensible to him — with the resulting confusion and "taking chances" on a "tip" or his own "hunch".

In the market, those technically trained analyze the market's condition as a whole by its component parts. The Averages (entire factory) are of prime importance. These are subdivided into "Industrials", "Rails" and "Utilities" (machines, fixtures, dies, etc.). What did each do? Did it go up or down? How far up or down did it go?

On what "volume" did the movement take place? What was the "velocity" of the move? Did it entail a fast tape?

The technically trained man analyzes other elements within the sphere of "market action". What did "investment" stocks do in relation to "speculative stocks?" If "speculative" stocks are advancing and "investment" stocks stand still, the market is dangerous. What did "Rails" do? If "Rails" outstrip "Industrials" in percentages gained, be on guard. How did the "Steel" group perform in relation to the entire market? All skyscrapers are built of steel. In a long advance lasting years, Steel will "top" all groups in percentage of advance. A real sharp break lasting years is coming. In "phoney" intermediate advances Steel will stay below the "Rails" and "Speculative". This is not healthy for the long run either. Furthermore, as Steel goes — so goes the market.

In addition, the trained man also asks: How many points in sum total did the market lose? How many points did it gain? What was the proportion of "cats and dogs"? How many points (or fractions thereof) were lost or gained per 100,000 shares traded? How many issues advanced in relation to those declined? How many unchanged? How many new highs? How many new lows? What was the average price of the ten, fifteen or twenty *leaders* traded in that day? In a healthy market the total combined price of the ten, fifteen or twenty leaders is more than double the average total price in an unhealthy market due to "cheap" stock and "cat and dog" participation. *All these factors analyzed daily give an insight as to the probable future action of the market.*

It might be well at this point to strike up still another comparison between the market and a large industrial plant. In offices, secluded from the factory, we find the Board of Directors at its semi-monthly meeting. The President of the Corporation conducts the meeting. He projects a "program" for, let us say, a year ahead. For the enlightenment of those attending the meeting, a volume of factual and statistical data is presented relating to national and international economic (and very often political) conditions. *If they visualize a period of good business ahead* — (helped along or at least unmolested by politicians large and small) — *they will increase production sched-*

ules; order the purchase of new materials; plan ahead; hire labor; increase the advertising budget — or vice versa.

In the market the intelligent trader does very much the same. *His first task is to study and analyze general economic and political conditions — thus putting himself in a position to sense whether the future of net earnings (and consequently the price of stocks on the market) will be upward or downward.* If his answer is in the negative, he concludes that stocks are not a "buy" at present. Logically, *if the market is not a "buy", then it is a "sale".* "Holding on" savors of hesitation — and "he who hesitates is lost". Therefore, he disposes of his stock holdings. He may then go a step farther and decide that *if the market is a "sale" it should include "short" selling,* which, in the final analysis, is "*advance buying*".

What is Base Charting? To put it simply, it is a method which enables you to take in the market's scope throughout its entire range from top to bottom and proceed to analyze it generally and in detail. This is accomplished by dividing the entire market into "base divisions" and then re-dividing and sub-dividing its various divisions into still smaller "spheres of influence".

Consider a stock or the Averages as a complete entity and then ask yourself — what is the sphere, width and scope of this entity? We could go back into the market's history for many years and discuss considerable research, which has been done (at a heavy outlay of money) — but there is really no necessity for doing this. Economic conditions *have* changed. (In fact, 1942-43 brought many more changes, and 1947-50 will be quite different from 1937-40.) Therefore, it is best not to confuse matters. For instance, if I began with 1859 (and rightly this should be done) — I should be compelled immediately to differentiate between 1943 and 1859. But this is quite unnecessary, as you know it will reveal a great difference.

The world has been changing dynamically and progressively. This is an age of 30,000,000 automobiles displacing many millions of mules and horses. In 1960 we may have 5,000,000 airplanes displacing 10,000,000 automobiles and trucks. Overnight flights from New York to California and to Europe are now an everyday occurrence instead of a trek of three to six months across hostile wilderness or oceans.

An address delivered in Berlin, Moscow or London comes simultaneously out of our radios here. A century and a half ago when a king sent a foreign emissary abroad, he had to wait a year or longer for a response (allowing for a "cooling-off" period). Now it is accomplished in a few hours by radio. Mussolini's resignation took place on Sunday, July 25th. Prime Minister Churchill "answered" him on Tuesday, July 27th. President Roosevelt gave the final word on Wednesday, July 28th.

As a matter of fact, even comparisons between our present war and that of 1914-18 proved misleading. In 1914, at the outbreak of hostilities, stock market prices dropped. In September, 1939, prices soared upward the moment a European conflict became a certainty. Developments in industry since the last war in economics, electronics, machinery, politics and finance were of sufficient importance to warrant entirely different conclusions in 1943.

For the reasons explained above we shall take a more recent period under observation. In short, we begin with 1929.

The Dow-Jones Averages were then at their peak of 386. In 1932 the Dow-Jones Averages were at their lowest point — 40.6. Thus, we have provided for our *first two bases.* Disregarding all previous periods, we draw a "fence" around the Averages — the highest point of the enclosure is 386 — the lowest 40.6. What strikes us is the fact that during a 14-year period the Averages did *not* drop to zero (as in Russia, for instance, since 1917) — but that their minimum value in the midst of our greatest economic depression was still 40.6 — and that their maximum value in the period of *the* great "boom" was only 386.

It is reasonable to deduce, then, that if you get up one fine morning and find that the Averages "can be bought" at 40, you would consider it a "bargain", and justifiably so. If they held to that level for 11 years, the Averages are obviously a good buy at their value of 40 and, consequently, you "buy the Averages" (or Radio at one dollar).

Similarly, if Rip Van Winkle — upon waking up from the nap he took during the Hoover administration — found that the Averages had reached 386 (providing no contemplated or visible change had occurred in the monetary value of the dollar — the purchasing medium — or gold) — he would "sell the Averages" (or Radio at 110).

The value of the dollar and gold is mentioned here without any intention of elaborating on this theme but merely to call your attention to the fact that should the dollar drop to 15% of its present value, that would indeed be another story. A good illustration is the case of Germany during the 1923 inflation period when the cost of a suit of clothes was say 10,000 marks. Obviously, you could not "buy the German Averages" then at anywhere near the price established before the value of their money dropped close to zero.

In stock market trading these "relative" factors must be taken into consideration. The subject of "relative" values of *gold, rents, interest rates, money, silver, wages, cost of living*, etc., is highly involved – and we have no intention of complicating our present thesis.

It might not be remiss, however, to mention the following probability. As an aftermath of the present war we are in possession of many American securities formerly held by the British of which they disposed here in order to pay for war materials. (This was prior to our decision to give war materials to Britain as a gift on a "Lend-Lease" platter). Since Britain has depleted her gold reserve for purchases in this country, she may find it expedient to abolish the "gold standard" altogether. In fact, she may institute a new "standard" which may be based on the value of the national wealth (including the Colonies), such as real estate, factories, homes, etc., instead of gold. (For instance, the Russian ruble is now based on the nation's "labor").

If other countries follow suit, the value of our national gold, which flowed into this country by the billions in payment for machinery, supplies, etc., and which has so painstakingly been put away in our Fort Knox vaults, can drop in value to the level of its usefulness for ornamental purposes only – and for this purpose brass is "cheaper". (The reason it has not dropped in value so far is because of "pegging" through laws by our Government.)

The relation of our paper dollar, based as it is on "gold reserves", can undergo a drastic change *downward*, causing securities to soar *upward* out of all proportion even to 1929. There is also the probability that when the time comes for our war bonds to "mature" – an inflation prosperity will facilitate the paying-off of the estimated two hundred fifty billion dollar debt with "10c or 15c dollars" in

terms of commodities. Stocks can then soar to twice the figure of 386.

Although these probabilities are not to be taken lightly, we shall leave this vital subject for Morgenthau to tackle. For our present purpose we are assuming that the value of the paper dollar will remain relatively the same. (At that, you are aware that there has been a change in the value of the paper dollar during the past few years which has affected our economy. Stock prices advanced during 1943 primarily because of higher prices for commodities and food. Higher prices for food means a cheapening of the purchasing value of the dollar. But enough of "high finance" for the present.)

To reiterate, the 14-year "fence" built so far around the Averages is based on a minimum of 40, at which point you certainly would invest all your money in stocks — and a maximum of 386, at which point you would convert all your securities into cash — if past experience means anything. We shall now proceed a step further by disregarding 1929 and 1932 for the time being, and for more practical purposes use only the 7-year period from March, 1937, to August, 1943. We are intentionally constructing a smaller "fence" within the large "fence".

The top of the new fence of the Averages for that period is 194, which became effective in March, 1937 — while the bottom is 93, which became a fact in April, 1942. The picture begins to look clearer and you undoubtedly are beginning to understand what I am driving at. For the present we might just as well forget about the 40.6 figure, although we always bear it in mind *as a possible point of decline*. It is also well to disregard the 386 figure, though *we keep it in mind as a probable point of advance*.

For all practical purposes, and for the sake of good trading, the market under discussion is working within a range of 194 and 93. These are the two inner "fences" constructed around the Averages. Until such time as 194 is penetrated upward — or 93 is penetrated downward — little attention need be given to the 40.6 cellar or the penthouse of 386.

So, if one gray morning you find the Averages at 93 you would be inclined to "buy the Averages". You are probably filled with regrets

that you did not do so at 93 in 1942. (I foretold weeks in advance that the market would come down to 93-94.)

By the same token, if one bright and cheery morning you find the Averages at 194 (*with monetary value equal* to March, 1937) — you would be inclined to "sell the Averages". (This, too, I know from hundreds of letters received from those who held stocks at 194 and who are extremely sorry that they did not sell out at that point.)

While I am asking that you project yourself either into the future or the past, in reality it never happens that way because you do not "suddenly" awaken to find the Averages at 93. A march downward consumes much time and is usually accompanied by bad business, unemployment, no earnings on capital, greatly reduced carloadings, increased taxation and scant profits for the businessman. A march downward to 93 would be a gradual process in which business indexes would decline by degrees. Pessimism instead of optimism would become the dominating factor. Pessimism is a matter of slow growth and, like cancer, feeds on itself. It does not strike like a bolt out of the clear. The result is that you begin to "get used to it". Your psychology is in the dumps — in the cellar as it were, (and perhaps your finances also) — gravitating toward the 93 level. You are mentally, physically and psychologically unfit to take advantage of the "bargains" — on the contrary, you are beginning to consider them "worthless".

Only a short while ago Curtiss-Wright was down to 7/8 and nobody wanted it. That figure (7/8) was entirely too close to zero for comfort. But observe how the "public" bought Curtiss-Wright in the proximity of 13.

In 1937 people bought B & O at 40 and thought nothing of it — while in 1941 it was available at around 2 — and in 1943 it came up to 10, an increase of around 400%. Have you invested your funds in B & O? Certainly not, because you did not think it would go back to 40 (or even to 10). But it may, and B & O may be selling at 20 times 2. (A $2,000 investment would net $40,000.)

The same psychology in reverse will apply when the Averages will have reached 194. The very same people who blame themselves for not having sold at 194 in 1937 may hold on to their stocks "hoping" and "praying" that it may go up to 300 — and it may at that. (My

charts "tell" me that years hence the Averages will go up to 293.)

What I wish to point out is the eternal weakness of "us mortals". "There is nothing new under the sun . . . " What happened in 1937 and 1929 will occur again and again. Perhaps you have experienced difficulties due to "circumstances". These "circumstances" transformed you into a "different" human being, possessing another psychology. That new human being and new psychology is a victim or product of "circumstances". Most likely your action will adapt itself to this "new human being". Selling at 194 will be ruled out.

At 194 I do not expect you to think in terms of 93 — or in the same light of 194 in March, 1937 — ("times have changed . . . ") If all traders would do that, there would be no market. Every one would sell at 194 and every one would buy at 93. There would be no other buyers. The jump, then, from 93 to 194, or vice versa, could be accomplished in one leap — overnight so to say. But this does not happen. Every downward or upward move of the market, accompanied as it is by newspaper and radio comment and current events, generates and molds either optimism or pessimism in the minds of traders. Not only does a move from 93 to 194 take years to accomplish — years during which "things do change" — but a lot of people who were in at the beginning of the move will not be there at the end of the move. Others will take their places to have a fling at the market. In 1929 it was the "silk shirt" buyers who to their sorrow crashed the gate — in 1943 it was the "night shift" buyers who bought up "cats and dogs".

The degree of optimism or pessimism, of course, varies at different stages. In November, 1940, the market reached 138 and you expected it to reach 155. But to your disappointment it dropped back to 93 instead. You were unquestionably pessimistic, but the degree of this pessimism cannot be compared to March, 1938, when the Averages dropped to 98 from a high of 194. In 1932-33, with the Dow-Jones Averages at 40, the entire country was mourning. Many of the banks were on the verge of ruin. Hundreds closed their doors when depositors made "runs". Hoover "gassed" the Veterans marching on Washington, and people fought with dogs for food in garbage cans.

The Base Theory of Charting leaves "sentiment" out of the picture. Its aim is not only to put "fences" around the Averages, but to place "gauges" and "standards" around your "optimism" and "pessimism". It is intended to be used as a check against an "overflow of pessimism" — showing when to turn optimistic, and vice versa.

Let us now go a step farther than the ABC's. Disregarding the war in our midst and the inflationary tendencies threatening, we have the following facts staring us in the face:

(1) The market reached 194 in March, 1937.
(2) The market declined to 98 in March, 1938.
(3) The market reached 158 in November, 1938.
(4) The market declined to 93 in April, 1942.
(5) The market advanced to 146 in July, 1943.

Quo vadis? Where is the market going? What action should you take? To answer this logically, without emotions entering into the picture, proceed on the following assumption:

(1) The market will not go lower than 93. This decision is prompted by the fact that it had an opportunity to go below 93, and did not. Ipso facto, 93 becomes your *bottom boundary line.*

(2) In March, 1937, the market, as you know, did not penetrate 194 upward. Consequently, you decide that what the market could not do in March, 1937, it will not accomplish in 1943. *Therefore, your upper boundary line is placed at* 194.

All things being equal — with conditions similar and in your present state of mind — you decide that if ever the Averages reach 93, you will *buy,* and if ever the Averages reach 194, you will *sell.*

It is now well to forget about our four "fences" by recording them on paper. In order not to make the chart cumbersome, we do not draw the 386 line, nor the 40 line. Instead we memorize these two points. Our chart is then drawn, beginning with 194 in March, 1937, and ending with 93. This chart, embracing 101 points on the Dow-Jones Averages, (the difference between 93 and 194), is then divided into four equal divisions of 25 points each. (Forget about the 1 extra point.) Your chart now shows a top of 194 — a bottom of 93, with lines drawn through 118, 143, 168 — and finally 194.

What is the object of these four divisions? Very simple indeed. The bottom division, projected from 93 to 118 *is your buying section and whenever stocks are in that locale you should be thinking of buying. The top division, running from* 168 *to* 194, *is the selling locale and whenever stocks are there you should be thinking of selling and shorting.* The remaining two divisions are the mark-up and push-up divisions — where it is usually well to stand pat — switch to advantage and buy more on reactions.

Things are now beginning to take shape. Leaving "sentiment" out of the picture, if you are to invest with any degree of safety (and for *long-term investing only*) — decide on the following procedure:

Buy in Division 1 between 93 and 118. The risk involved? The chance you are taking is that stocks will go lower. This is a contingency which you must face. To play the game scientifically one should divide his capital in four parts and buy in the first division on a scale up or down between 93 and 118. Your stop-loss should be 87 — just in case the market should again come down to 40. When stocks enter the fourth division, you are beginning to sell. The chance you are taking is that more points will be added and another division created which will bring the market up higher. This is one more of those contingencies which must be faced. You can re-enter the market at 203 for a move up to 293. Scientific trading would call for gradually selling 25% at a time in the fourth division between 168 and 190. *You will hold on to stocks — buy more on reactions — and do "switching" by groups to improve technical position in divisions two and three* .

The range presented, of course, is entirely *too wide* for "trading". *We want to trade in the intermediate range and limit the risk to only* 2 *or* 3 *points. The long-pull investor, however, has a simple and safe method all set and ready.*

We will now "fence" additional important movements between 93 and 194, but shall not attempt to stop at every turn-about of the market. We shall only record and "fence" important market moves.

Now, let us see precisely what occurred. From 98 the market went up to 158. We could list other market movements within the move from 98 to 158, but they are of minor importance. *Due consideration must be given to the* 158 *high level of November,* 1938, and the

figure 98. The reason for this is that 98 was the low in 1938 — and 158 was the high in 1938. The Bear market began in November, 1938, at 158. So, in addition to those "fences" already drawn on your chart — add one more line at 158 and at 98. The entire move from 93 to 194 is now plotted with lines which run as follows: 93, 98, 118, 143, 158, 168 and 194. Note that each one of the "fences" turns out to be a selling level (or a buying level downward from the September, 1943, top of 146). As you progress with this book, you will find that "other methods" call for selling and taking profits at 144-158-174 and 190. The "other methods" also call for buying at 118-98-93.

It must now be clear to you that if you awaken one fine morning and find the market around 118, that you have good reason for buying, namely: the *distance from* 118 *to* 93 *is in the first division* (*or first base*) *in which stocks are a buy for the long-pull.* When would you sell? The long-pull investor could make use of the methods described previously. The intermediate-trend trader would take profits at 143. (Note how close this is to 146, where the market stopped in July, 1943.) Re-purchase on a reaction (to about 116-120) and sell at 154 — then wait for a reaction (to about 146) and buy — re-sell at 174 — wait for a reaction (to about 164) and buy — and sell out completely around 190. *At this point do not buy any more, but sell short.*

How does this system work out on individual stocks? Let us take U. S. Steel, for example. To begin with, "fence" the price of Steel in 1929, which was 261. This is the top "fence". Following, erect the bottom "fence", which constitutes the price of Steel in 1932, namely 21. For reasons explained previously the next step is to forget 1929 and 1932 and *erect a "fence"* at 127, the price of Steel in March, 1937. *Another "fence" is then placed at* 38 — *the price of Steel in April,* 1938. Place an additional "fence" at 71 — the November, 1938, price — following this up with the April, 1939, price, namely 43. Make another "fence" at 82⅜ for September, 1939; also 42 in 1940; and likewise 76⅝ in 1940. The next point of interest is 45 in 1942, and 59 in July, 1943. Since the two *base* prices for Steel are 127 high and 38 low, divide the difference between 127 and 38 in four divisions of 22 each. Your Base Chart for Steel will then read as follows: 38, 42, 43, 45, 59, 60, 71, 76, 82, 104 and 127. The

real trading range on U. S. Steel, as you can see, is only between 38 and 82. Other stocks are more promising.

Before taking action on individual stocks you must naturally take into consideration the condition of the entire market. If you expect the Dow-Jones Averages to go over its previous high — a similar move can be expected for your stock. But in this respect, it is well to understand that individual stocks do not move together with the market for reasons explained heretofore. It is very likely that the entire market may go up to 194, and Steel may not reach 127 on this move, and vice versa. This may be due to the peculiar conditions of the Steel industry, and taxes as they will affect Steel.

Similarly, there are many stocks which already advanced to higher levels than during 1937, although the Dow-Jones Averages did not reach the 1937 level of 194. One must be aware of changes occurring in various industries and individual companies affecting the price movement of their stocks. It is most essential, therefore, that each stock, if traded in by the Base Theory, should be treated as an individual case in line with prevailing prospects for that stock and group.

*   *   *   *

My son, let not them depart from thine eyes: keep sound wisdom and discretion:

Then shalt thou walk in thy way safely, and thy foot shall not stumble.

When thou liest down, thou shalt not be afraid; yes, thou shalt lie down, and thy sleep shall be sweet.

Be not afraid of sudden fear, neither of the desolation of the wicked, when it cometh.—— (The Proverbs)

CHAPTER XIII

Ethics — Psychology — Stocks

IN PREVIOUS chapters I covered some mechanical methods which greatly help in recognizing "Der Tag" when it arrives. Relatively speaking, the psychological factors are of greater importance. You will be a better "reader" of charts after you have mastered stock market psychology.

I should like to again emphasize that there is no single "method" or "system" by which one can follow the market profitably. During my market experience I have tested practically all the "yardsticks", including, of course, the Dow Theory and most of the other available "methods". Moreover, I have interviewed all types of "inventors" of market "devices". Among these were college professors, mathematicians and non-professional men, frequently keenly intelligent, whose formulae and designs for foretelling market movements merited interest. The difficulties encountered, however, were manifold and included both their unique "systems" as well as their personalities. *Results are what count* — and of these they could not boast because of their "mechanical" approach to a subject which is mainly "psychological".

There is a trader I know (and he is an intelligent man) who follows the "funnies" in his trading. When "Napoleon" jumps (in the "funnies") — he buys stocks. When he (Napoleon) is under the table — he sells out. When he meets a "bear" — he goes short. In his favorite comic, when the sun rises — he buys. When it is stormy — he sells out.

Of course, you are aware that Astrologists have written books on the relation of the heavenly constellations to the stock market. One nationally known astrologist printed regularly stock market "advice" as "told" by the "stars," and then the heavens "broke loose" and that was the end of the "comments". If one is an astrologist and understands market theory and practice besides — a tie-up with "astrology" is a "natural".

Some day I may even write a book which will deal — not with the

stock market — but with its traders. I have hundreds of letters from clients in which ideas, experiences and psychological reactions are expressed, and are an interesting study in human behavior and reactions to phenomena. In my correspondence is a letter from one who lost $4,000,000 in the market. Like Oliver Twist, he was always "asking for more". He could have retired and "lived happily ever after". I have a letter from another who began trading in the market with $1,500 — made $100,000 — and is now retired. *It can be done.* It is all a matter of "common sense," and you will learn to apply it at the proper time. And when you do — you will devote one hour a week to the market — yes, *one hour a week* — and you will be making real money. The very fact that you will be working on market problems one hour a week only will prove that *you have mastered it.*

It is vitally important *not* to be in each and every market movement. When you go fishing you want a big lake with good-sized fish in it. During each year there are four or six moves in the market which are *more or less certain,* and in which *the risk involved is very little.* These are the moves to be in. As for the other 94 moves — you can well afford to let the public and professionals fight it out among themselves. Let *them* have sleepless nights.

Definite market moves can be developed only after a struggle has been in progress for some weeks or months. The duel between buyers and sellers — Bulls and Bears — Hopes and Fears — Foolishness and Wisdom — finally determines who is getting the upper hand. Keep in mind that whenever you note on the tape a sale of 100 or 10,000 shares — one of the two (either the buyer or the seller) — has made a "mistake". Both cannot be right. If prices go down, the buyer has erred; if prices go up, the seller feels sorry.

In observing market moves you will gradually begin to see who was right — the buyer or seller. When that becomes clear — and "market action" will reveal it to you — take sides with either the buyer or the seller — depending on whom the market placed the better judgment. But do it only after they have paved the way for you by fighting it out marketwise over a period of time.

Understand that before a market reverses itself and begins a good move in an opposite direction, it must of necessity evaluate anew and set prices on each and every issue listed on the Board (about 1,000

issues). It cannot begin an important move without first setting the *entire house* in order. The "leveling-out" process continues for months, with every issue listed getting an opportunity to adjust its affairs. It is a waste of energy to follow these little ripples. It is *the* move that counts. And it is only *the* move (be it intermediate or major) that can be figured out in advance.

The ninety-four market moves in which you do not participate are really your laboratory. Why shouldn't you take every advantage? *Let them trade in order to clear the path for you. You can lose nothing but your patience.*

That is another vital factor to stress — *patience.* If you are impatient, jittery or nervous and like the story-book Irishman who feels cheated if there was a scrap and he did not participate — you are bound to come home at night pretty much scratched up. Patience is one of the prime requisites in trading. Once you employ logic and sound common sense as your guide posts — and possess the capacity to size up a situation *as it exists or will be* — rather than what you *wish it to be* — results are bound to come your way. *The gods are always with those who are strong, patient and possess will-power.*

I presume you have met "strong" men of whom it was said that they always "get" what they are after. The key to their success is that *they know what they want,* and are willing to forego many things of lesser importance which normally occupy people's thoughts and attention. They want only those things which are possible of attainment. God is with them because they are after only *what is logical or ordained for humans to achieve,* and they have the *patience to wait for the achievement of their aims.* "Desire" is one thing — most people are full of desires and they seldom materialize. The successful man (in any field) prepares his ground and surroundings in order to realize his desires. (Sometimes it is flowers, but in most cases it is *hard work and study).*

Patience is vitally necessary when trading in the market. If you are convinced that the market has to come to a certain level — up or down — it will accommodate you and come to it in due time *if you have patience.* The market knows better than you or I when the time is ripe. Do not rush it. It has the stupid behavior of "us humans" to contend with and to pass judgment upon.

***Better IS the end of a thing than the beginning thereof: AND the patient in spirit IS better than the proud in spirit.*——** (Ecclesiastes)

Charts, formulae, etc., have an important place in the sun and you will hear more of this as you progress. Really important, however, is a correct analysis and interpretation of the political and economic scene. The "tools" are to guide you along the road you choose, and like a flashlight, to illuminate the way ahead so that you can see where you are going. *It is first of all vitally important to be on the right road. Though it may be well lighted — and clearly defined — it will do you no good if it leads in the opposite direction to your destination.*

Do not for a moment take it that because you are not a professor of economics — nor have studied political science, ethics, religion and psychology that you cannot trade successfully in the market. If you understand the Bible and grasp its *basic* elements — *if your philosophy of life is in harmony with those of the Prophets and you understand their simple concepts — you may very likely become one in due time in a market sense, of course.* Prophecy in any field is the result of being able to see things clearly and from one point of view only. Once you begin "compromising" with "life" or the market — "success" will leave you.

Ethics, psychology, economics and religion are a help in trading, just as they are in every other walk of life. In fact, a taste for good literature or poetry, or intelligence on any other subject is also a help. For instance, if you have not grasped the political ideas dominating the world today, you will be unable to foresee the reasons behind market action. True, real changes in the political and economic order do not occur overnight — but for that matter neither does the market go through sudden changes — nor can you profit by anything "sudden".

It takes foresight and proper analysis to see the future. Successful operations in the market are not based on what is now — what you see now — what is obvious — or what happens accidentally, unforeseen and sudden. Conditions and phenomena must be analyzed with a view to its inherent and potential strength or weakness and outcome. If something "happens," that is just "hard luck" — but if you continue

planning, with your eyes wide open, things will "come your way" seven or eight times out of ten — and that is all you need to make a success.

In unaffected language and by degrees I am endeavoring to teach the Basic and Elementary principles of economics, politics, psychology and ethics *from a market view.* They carry a mighty weight as guide posts in proper trading. Please do not construe that I pray to the Almighty imploring Him to be with me in market forecasting. This would be nothing short of blasphemy. My conception of the Universe and God is too broad to allow for any interest by Him or Nature in such trivial matters as market operations.

When we have once adopted the fundamental concepts of the Prophets (of whatever religion) and the principles of justice and righteousness — we cannot help but approach our problems with clear understanding. Truth, as such, may be relative, but basing our work on the principle that once our position is clarified and we consider ourselves right and refuse to be swayed in other directions by outside influences (whether press, radio or public opinion) — continue to have *faith* in our views and ideas, we cannot help but come out ahead.

A search for ethics in the methods and manner of our trading is indispensable. Individuals and governments can continue to exist and progress only as long as their code of ethics is not in conflict with those with which they come in contact and the world at large. The terrific bombings Hitler and Mussolini received in 1943 are a direct result of trying to enforce a code which the world did not want to accept of their own free will. Dictatorships had to lose out because the history and tradition of men has been dominated by a crying need for freedom.

"Give me liberty or give me death" did not begin with Patrick Henry. It is a basic human desire which has been echoed throughout the ages and by all religions. Moses gave up a comfortable life in Pharaoh's palace and devoted himself to freeing the Jews then living under slavery. Millions of prophets and idealists were "martyred" and "crucified" in one form or another for preferring *truth.* And the "Four Freedoms" . . . ? These were not "brought from the Atlantic"

by Roosevelt and Churchill. Early American literature, as well as Ibsen, Tolstoi, and the Bible contain innumerable references to it.

We get out of life what we put into it. "Do unto your neighbor as you would have him do unto you". People whose philosophy is to *"take all"* and *"give" as little as possible* (Hitler & Company) get nothing in the end. Those who adopt sincere and earnest precepts — *giving all that there is within them* to those they serve *without giving thought to any recompense* — ultimately *make a great success* of their particular service.

In the market, too, we *can only get what is coming to us* and when "time" strikes. If our idea of trading is to "jump" the market — trying to scalp "pieces of silver" here and there — or if it is our idea that the market is a "chump" and an "easy mark" — we will wind up with the market having our dollars and our health.

On the other hand, if we are not insatiable and do not consider that we missed an "opportunity" if the market went up and we did not participate — and do not jump on the "advisory service", the broker, or the "customer's man" every time *we* make a mistake — then we *will eventually get from the market what is ours.* But in this, too, *we can only get as much as we put into it* in time and attention. It may take years of preparedness, but the market will be there whenever you are "ready" (from a mental and spiritual point of view) to *take the profits which are yours because you prepared yourself for it and waited patiently.* As you gain experience — you gain money from the market. As you gain experience — you get older. The older you get — the more need for a steady and "easy" income. As you get older — your profits become greater because you are then "wiser". At the height of wisdom — somebody "above" calls out your name — time to "cash in".

If we are unwilling to search and study, using our heads at critical moments, our adventures in the market must fail in the end. If, on the other hand, we do not act impulsively and refuse gratuitous and well-intentioned "tips" — endeavor to earnestly study situations to the best of our ability and view every possible factor — sooner or later profits in the market are assured. Even if you fail at first, you will ultimately get there. Very often immediate success turns one's head making one feel sure of himself to the point where he does not have

to be on guard to watch, study and learn — and then losses inevitably follow. Losses wake one up to the realization that all is not well in the "upper story".

For a just MAN falleth seven times, and riseth up again: but the wicked shall fall into mischief.—— (The Proverbs)

In your quest for the Truth as related to market trading you will meet with numerous advertisements and claims which promise "the world", and more. We have all read these "Trojan Horse" assurances which hold out the pot of gold at the end of the rainbow. I can assure you there isn't one idea *of value to you as a layman in trading* which you will not find in these pages. All you will need is practice and more of it. If you begin to complicate matters for yourself, it may do you much harm. But if you can bring yourself to understand market action through "simple" common sense "devices", such as I give you here, you will succeed. However, once you fall "prey" to a desire to solve the "puzzle" by some mysterious "signs" which you do not understand, and which cannot be explained logically, you are on a dangerous path. "Alchemy", "the Word", "Stars", "The Seventh Book of Moses" — they will all cause confusion which you will have difficulty in shaking off and will lead you nowhere.

To trade successfully in the market requires *common sense, a level head, an understanding of economics, a study of chart implications, close observation of the political scene and, above all, more common sense.* What you should strive for is *not at always being right,* or in doing better than "us" professionals — but to trade in a conservative manner when *the market calls for a trade* and then *to trade on the right side.*

If you glance through your evening paper and notice the stocks which went up and down during that day, probably your first thought is "why couldn't I have been in on that move?" Or, "why did I buy New York Central when it was Johns Manville that went up?" *"Looking backward" will never help you marketwise.* Neither is it within the realm of possibility for any one man to watch all the stocks on the Exchange with a view to taking full advantage of their moves. (And who has sufficient capital to trade in 1,000 issues?) The best one can

hope for is that when he does make a trade it will be in the *right stock in the right direction,* and at a *time* when a trade is called for.

On the face of it this, too, seems to be a simple matter. After all, there are only *two directions* — up and down. One would think that by trading "blindly" on both sides, one would have a 50-50 chance of breaking even. *The facts, however, deny that assumption.* Each trade costs money in the form of commissions and taxes. If a losing trade is made one has not only lost the amount the stock went against him — but the commission and taxes to the broker as well. On a subsequent trade one has to make up not only the actual points previously lost — but *two commissions and taxes* also. It stands to reason, then, that it is not a 50-50 chance any more.

The "percentage" is also against you because of the higher price you usually pay when buying and the lower price you usually receive when selling. At times it may only be 1/8 or 1/4 point. In "thin" markets it may run up to 1 point and this reduces your "percentage" for an even break. True, the low on the stock was 20 and the high 25 but it is most unlikely that you bought (or can buy) consecutively at 20 (bottom), or that you will repeatedly be able to sell at 25 (top). In fact, *it is the exception* when this happens, and it would make the headlines (news).

These are the reasons why in market trading the majority have more "losers" than "winners" percentagewise. *In order for you to make money you must reverse the process. Your trades must be* more profitable percentagewise, and your successful trades must be *more* than your *losing* ones *numerically*. The principle to work on is that out of 10 trades consummated there should not be more than 3 losers to every 7 winners. And the 3 losers must amount to less than 3 winners.

—

If one entered the market by "testing his luck"; wagering money on the "heads or tails" principle and without any knowledge at all (marketwise) — he may with good luck score a winning streak of 7 to 3. In fact, for a time one can have 10 consecutive winners by being patiently persistent. But when this same "luck gambler" attempts to use *some* reasoning and "knowledge" by figuring it out — his "luck" will completely change. It would then be quite impossible to count

7 against 3 or 10 straight, or a "break-even" score. And he can definitely blame it on what he "thought out".

Marketwise, once *"partial thinking" is resorted to, the chance for coming out ahead is very much minimized.* Only the individual who is capable and willing to "think it out" all the way through can go over the top. *A little thinking and a little kuowledge marketwise is worse than no thinking and no knowledge.* The reason for this is quite obvious. The market usually acts contrary to what is expected of it Whenever the market is in the process of rising, and after prices have advanced, a flood of telegrams and long distance telephone calls invariably ask me whether they should buy *now* — and if so, they will subscribe to my Market Surveys.

But the time to buy (and to subscribe) was months past. *"Now"* it is close to *selling time.* These "would-be" traders are *using their heads* and doing *some* thinking, as evidenced by their telegrams and 'phone calls. However, they have been moved by the market emotionally, and trading should *not be done* with one's emotions but by planning in a cool and calm manner. These telegrams and 'phone calls (and subscriptions) should have come in when the market was in bad shape (and, therefore, very good).

A good many "clients" are "penny wise and dollar foolish". They will risk "heavy money" in the market but they will try to save a few dollars by not subscribing to the advisory service in which they believe when the market is inactive or going down. These "wise guys" who saved themselves $20 or $25 on the cost of the subscription enter the market when most stocks have already advanced 4 or 10 points. Some clients even come in at the end of a move. Neither I nor any "expert" can help them.

I hope to see the day when an *intelligence test* will be the law for every prospective trader. Some day the Securities and Exchange Commission will make it compulsory for every "sucker" to appear before the Commission and prove that he is *mentally capable* of buying and selling securities. There should be a law against *cheating oneself in not knowing what and when.* Yes, *we are our brother's keeper.* Cain — and since then the entire human race — paid a high price for thinking otherwise.

From previous pages you learned that events in the world at large, as well as in the sphere of economics and the stock market, do not run without a "system". If one were to assume that the world runs helter-skelter without natural laws which are frequently subject to prediction, he would have no business being in the stock market. The Bible is filled to the brim with "laws of compensation", "laws of action and reaction", "laws of diminishing returns", and hosts of others by which nature and all that it entails is governed.

This is not the place to elaborate on any of these laws. Neither have I any desire to treat this subject in the light of cold economics. But to bring home to us certain aspects of the law of compensation, action and reaction, and theory of cycles, I shall quote from one of Emerson's essays:

"I shall attempt in this and the following chapter to record some facts that indicate the path of the law of Compensation; happy beyond my expectation if I shall truly draw the smallest arc of this circle.

Polarity, or action and reaction, we meet in every part of nature; in darkness and light; in heat and cold; in the ebb and flow of waters; in male and female; in the inspiration and expiration of plants and animals; in the systole and diastole of the heart; in the undulations of fluids and of sound; in the centrifugal and centripetal gravity; in eelctricity, galvanism and chemical afinity. Superinduce magnetism at one end of the needle; the opposite magnetism takes place at the other end. If the south attracts, the north repels. To empty here, you must condense there. An inevitable dualism bisects nature so that each thing is a half, and suggests another thing to make it whole; as spirit, matter, man; woman; subjective; objective; in, out; upper, under; motion, rest; yea, nay.

Whilst the world is thus dual, so is every one of its parts. The entire system of things gets represented in every particle. There is somewhat that resembles the ebb and flow of the sea; day and night; man and woman; in a single needle of the pine, in a kernel of corn; in each individual of every animal tribe. The reaction so grand in the elements is repeated within these small boundaries. For example, in the animal kingdom, the physiologist has observed that no creatures are favorites, but a certain compensation balances every gift and every defect. A surplusage given to one part is paid out of a reduction from another part of the same creature. If the head and neck are enlarged, the trunk and extremities are cut short.

The theory of the mechanic forces is another example. What we gain in power is lost in time; and the converse. The periodic or compensating errors of the planets is another instance. The influences of climate and soil in political history are another. The cold climate invigorates. The barren soil does not breed fevers, crocodiles, tigers or scorpions.

The same dualism underlies the nature and condition of man. Every excess causes a defect; every defect an excess. Every sweet hath its sour; every evil its good. Every faculty which is a receiver of pleasure has an equal penalty put on its abuse. It is to answer for its moderation with its life. For every grain of wit there is a grain of folly. For everything you have missed, you have gained something else; and for everything you gain, you lose something . . . Nature hates monopolies and exceptions. The waves of the sea do not more speedily seek a level from their loftiest tossing, than the varieties of condition tend to equalize themselves. There is always some leveling circumstances that puts down the overbearing, the strong, the rich, the fortunate, substantially on the same ground with all others . . .

The farmer imagines power and place are fine things. But the President has paid dear for his White House. It has commonly cost him all his peace and the best of his manly attributes. To preserve for a short time so conspicuous an appearance before the world, he is content to eat dust before the real masters who stand erect behind the throne . . .

This Law writes laws of the cities and nations. It will not be baulked of its end in the smallest iota. It is in vain to build or plot or combine against it. Things refuse to be mismanaged long . . . Though no checks to a new evil appear, the checks exist and will appear. If the government is cruel, the governor's life is not safe. If you tax too high, the revenue will yield nothing. If you make the criminal code sanguinary, juries will not convict. Nothing arbitrary, nothing artificial, can endure . . .

Justice is not postponed. A perfect equity adjusts its balance in all parts of life. . . The dice of God are always loaded. The world looks like a multiplication-table or a mathematical equation which, turn it how you will, balances itself. Take what figure you will, its exact value, nor more nor less, still returns to you. Every secret is told, every crime is punished, every virture rewarded, every wrong redressed, in silence and certainty. What we call retribution is the universal necessity by which the whole appears wherever a part appears. If you see smoke, there must be fire. If you see a hand, or a limb, you know that the trunk to which it belongs, is there behind. . .

All things are double, one against another. Tit for tat; an eye for an eye; a tooth for a tooth; blood for blood; measure for measure; love for love. — Give and it shall be given you. — He that watereth shall be watered himself. — What will you have? quoth God; pay for it and take it. — Nothing ventured, nothing have. — Thou shall be paid exactly for what thou hast done, no more, no less. — Who doth not work, shall not eat. — Harm watch, harm catch. — Curses always recoil on the head of him who imprecates them. — If you put a chain around the neck of a slave, the other end fastens itself around your own. — Bad counsel confounds the adviser. — The devil is an ass.

It is thus written, because it is thus in life. Our action is over-mastered and characterized above our will by the law of nature. We aim at a petty end quite aside from the public good, but our act arranges itself by irresistible magnetism in a line with the poles of the world. . .

Human labor, through all its forms, from the sharpening of a stake to the construction of a city or an epic, is one immense illustration of the perfect

compensation of the universe. Everywhere and always this law is sublime. The absolute balance of Give and Take, the doctrine that everything has its price; and if that price is not paid, not that thing, but something else is obtained, and that it is impossible to get anything without its price; — this doctrine is not less sublime in the columns of the ledger than in the budgets of states, in the laws of light and darkness, in all the action and reaction of nature.

———

With the wisdom of these brief paragraphs in mind and the theory of action and reaction as a background, we shall study the market from 1929 to date. The phenomena of the "pendulum" was demonstrated to us in our physics class in school and still holds good. *Strike the pendulum of a clock in one direction and it will come back an equal distance in the opposite direction. As its momentum diminishes in the first direction, it will do likewise in the opposite direction. Unless the pendulum is given extra impetus between swings, the power, scope, space of the swing will diminish.*

———

In the market, take note that in 1929 the pendulum struck 386 (from 50 in 1914). It was natural, then, for the Averages to come back to 40 in 1932. The original force was not exhausted, however, and the pendulum came back to 194 in 1937 (*half way*). It recoiled to 98 (*halfway again*) and then went up to 158 (*more than half way this time*), and finally down to 93 (*more than half way again*). As of this writing (Sept. 1943) the pendulum gained still greater momentum by reaching 146 — making up 53 points out of a total of 65 points lost (*more than five-sixths of the way this time*). The pendulum of "time" as related to the stock market will assume ever wider and wider "force", until it will make up its loss of 101 points (from 194 to 93) and swing that many points in the opposite direction to 293.

Not only does one note the natural law of action and reaction (pendulum) at work — but also a narrowing on the chart within which pattern the pendulum swung back and forth. The ramifications of the chart and the movements from 1929 to date *tie up closely and are interrelated with other elements in the 14-year period since 1929.* As far as we are concerned, the 14-year cycle has come to an end. *The market is beginning a new move in an upward direction.* The "signal" was given in 1943 (at 130) when the "pendulum", for the first time since 1929 went out of the "channel" in which it remained for

thirteen years, and moved outside of the channel in an upward direction, reaching 146 in July, 1943 — a move of 16 points in new territory as far as the 13-year old channel is concerned. *This move is the beginning of a new cycle in market history. The market may have made its decisions on the basis of the following political and economic factors*:

Hitler attacked the democracies "in principle" before he waged war on them. He "hates" democracies and "capitalism". He is also a "crank" on Communism. Russia, too, has no love for democracies — but most of all Russia hates "capitalism". Phenomena of world wide importance, such as Fascism, Communism, C.I.O., (the taking over of National leadership by the New Deal) — do not arise unless there is a basis for the ideologies expressed by these various groups in our economic and political structure. These movements, like "Free Silver," develop only because of certain ailments in the body politic or economic. Men have a variety of interests. They fight to protect these interests when they are challenged. In primitive society man fought primarily for "food and females" — the latter worth while fighting for, you will admit. As we became "civilized" we began fighting because of "morals" and religion. Later on, with the development of capitalism and trade, we fought for "outlets" and raw materials.

Now it is "ideologies" which we are fighting against. We attacked Hitler because of Fascism — we distrust "our ally" Russia because of Communism. People act as a result of their environment and economic position. Degrees of temperament are as varied as mankind. Some prefer music — or like, "Ferdinand the Bull", smell fragrant flowers. Others prefer the "glory" of war. Still others seem to favor fighting and murder for the "enjoyment" it brings to them. A few prefer to be "myrtars" for the sake of "improving" the conditions of certain "classes", races or humanity as a whole. By this mixture of elements an outlet is frequently found in joining a certain "party" having an ideology for "changing the world" — either by legislation or by revolution.

People join various groups of political and economic action in harmony with their temperament, social standing, environment, training, education and "frustrated dreams". That is why "truth", as such, does not exist. It must be viewed from that approach which

best fits the *qualifications of the person or country or group* in *question*. Yes, truth *is* relative. There can be several, and even contradictory, "gospel truths".

Sociological movements of the character referred to will, if given a chance to develop normally, liquidate themselves by an accumulation of contradictory events. *If these movements are successful, a period of deterioration sets in* due to a *realization of the aims and ambitions accomplished*. Human weaknesses and vices gain the upper hand again. The new "leaders" (New Dealers) being only human commit the same injustices under a new cloak and slogan. Failure to attain the objective can either keep the movement going indefinitely, or subject it to the influence of "time" and events which vaporize the ideals and aims for which these groups stood. The struggle goes on eternally.

It was no accident that the market was at its apex and ready for a new move in the year 1942. That year marked the entrance of our country, and the world at large, into a new political era. We had 10 years of "New Deal" and social reforms – together with years of social unrest throughout the world. Fascism, Communism, Nazism are ideologies which have grown immensely during this period. Hitler became a power in 1932. *It ended in* 1942.

When I was in Russia in 1930, the country was in the grip of poverty and starvation. In 1937, on my next visit, the country was "comparatively" prosperous, and "nationalism" instead of communism was preached to the people. Communism, as an ideology, died in 1939 when Stalin combined with Hitler. Officially, Communism was abolished (as an international movement) early in 1943. The American Communist Party gave up its propaganda of "contradictions" later in the same year by dissolving. The German "Bund" was outlawed here upon our entry into the war. Atheist Russia officially recognized the Orthodox Church (*opiate* since 1920) in 1943.

It was no accident that in 1942 the market worked itself into an apex from which it broke out on the upside for the first time in 13 years. *Communism, Fascism and Nazism have also reached their apex. The "triangle" on the chart breakout upward showed unmistakably the downward direction of all three.*

Since these ideologies had for their major purpose the destruction of "Capitalism" and the instituting of State Socialism — Communism or the Corporate State in its stead — it was logical that *as these ideologies weakened, their mortal enemy "capitalism" should come to the fore. The expectation is a period of prosperity and opportunity for capitalism. The market discounted this new "ideological cycle" and advanced forward — proclaiming to the world that it does not fear its mortal enemies (communism, fascism, nazism) any longer.*

The fortunes and misfortunes on the battle front are in reality the fight of Capitalism (as expressed by England and the U.S.A.) against the ideologies mentioned. Nazism and Fascism are beaten with the sword. Communism is "beaten" by Lend-Lease — the "promise" of food after peace, and by being "bled white" by the Germans. (The Columnist, Drew Pearson, had the "courage" in August, 1943 to name Secretary Hull of our State Department as one who would like to see "our ally" Russia "bled white". A denial by Secretary Hull followed. *A statement "officially denied" is worth mentioning).* The fact that the proletarian "heaven on earth" was compelled to ask for "relief" from "Capitalistic" United States and Britain, seals the doom of Communism as a menace to capitalism.

The above remarks concerning the three ideologies hold good in a lesser degree for the "New Deal". I do not mean to imply that the "New Deal" is to be compared to any of the three mentioned "isms". The difference lies in the fact that while Stalin, Hitler and Mussolini really wanted to destroy Capitalism — *President Roosevelt is Capitalism's greatest friend.* He wanted to *save* Capitalism from its enemies, Communism and Nazism, by keeping "labor" from revolting and "taking over", as they did in Russia. American capitalists, fighting Roosevelt and the New Deal, are in reality (from future historians' standpoint) fighting their "Savior". (However, at times ignorance is bliss).

Although the "New Deal" has had "laboratory experience" for 10 years it has not succeeded in its plan to make Capitalism healthier by injecting a healthy prosperity (I do not consider the defense program healthy) — by solving the farm problem — improving the lot of labor — reducing unemployment, etc. Only our entry into

the war, and with it the patriotism of both capital and labor, saved the "New Deal" in its dilemma of helplessness to improve on "standard capitalism".

The world of politics, economics and finance must be in harmony to experience any lasting prosperity. It is no coincidence that the market broke out of its apex at the very time that the "New Deal" reached maturity. Since 1941 the "New Deal" has turned more and more "capitalistic". Note the break between F.D.R. and John L. Lewis of the C.I.O. Note the prison sentence of Earl Browder, the Communist leader and Fritz Kuhn, the Nazi leader. Note the passing of the law to outlaw strikes in war plants. Note the "pay envelope", taxation and the "untouchable" incomes above $25,000 per year. Note the "cleansing" of all "radicals" from the war effort. Roosevelt himself is not "the same" any more. Instead of "throwing the Money Changers out of the Temples", he calls them for "conferences" — sells them war bonds — and has them run the war effort.

If the law of action and reaction has any significance — the next ten years in the history of our country should abound in prosperity and the constructive development of its natural resources under a healthy capitalism. The stock market will make a broad advance to 293 on the Dow Jones Averages when the implication is clear, and when the time is ripe.

* * * *

There were four things from which the Master was entirely free. He had no foregone conclusions, no arbitrary pre-determinations, no obstinacy, and no egoism.
—— (Confucianist Scriptures)

Things have their root and their branches. Affairs have their end and their beginning. To know what is first and what is last will lead near to what is taught in the Great Learning.—— (Confucianist Scriptures)

CHAPTER XIV

The Subject of "Volume"

THE SUBJECT of "Volume" presented here is interesting from the theoretical, as well as from a practical standpoint. To begin with, take note of the daily volume of stocks traded as listed in your newspaper, as well as the range of prices. These figures should be charted in "two dimensions": (1) price (*the price scale vertically*); (2) volume (*the volume scale horizontally*).

Volume studies are important in determining *future* price movements. Broadening-out of volume on the top of a move usually signifies the end of that move. A decline in price *relative to the horizontal width of the top* is then to be expected. Similarly, a decline on small volume — relative to previous advances — can be of little Bearish significance. It would indicate a lack of selling pressure. Look for a further advance after the position of the market is consolidated.

After copying from your newspaper the *price* and *volume* range of a certain stock for weeks and months, in the manner suggested above, a clear perspective can be gained from the picture developing. *Relation of supply and demand can thus be established.*

If, for instance, Chrysler trades 100,000 shares around 80 and in the next few weeks sells off on 40,000 shares (to 67 or 66), you can assume that the supply and demand relationship in this particular range is 10 to 4 — 100,000 demand, 40,000 supply. In time you will be able to measure the supply still held by the owners. At one time or another they, too, will sell and that will produce "supply". During a decline, if your chart reveals that 100,000 shares of Chrysler were traded as compared with 200,000 for the period of the advance, you should expect some of these remaining 100,000 shares to come out sooner or later.

After charting a stock in an up and down movement lasting months and years, it attains barometric capabilities. The volume chart is a "help" in telling you whether that particular stock will go up or down. Likewise, charting a move for many years will tell you

the stock's difficult points for the long term move. Of course, you are *not* to rely on volume signals alone. All the various methods and tools available for foretelling market action should be consulted and weighed for their specific signals. "Trend lines", "channels", "head and shoulders formations", etc., should be looked for in order to draw conclusions. (Please note that *when all signals point to a reversal of trend it is usually "too late"*. In other words, when "everybody" "sees" or is "positive" that the market is "bad", then the worst may be over, and vice versa).

The supply of a stock weighs heavily on its price structure. For instance if there has been heavy trading in Chrysler years back at the range between 70 and 80 — and Chrysler dropped to 40 from which point it advances — you can see beforehand that its resistance point will be between 70 and 80 by taking note of the heavy volume of trading on your chart. Approaching 70, we say "the stock will meet resistance" — or "meet supply" because some of the trading between 70 and 80 has not previously been "liquidated" or digested.

Stockholders, having purchased at that range, are most likely to offer their holdings for sale at a profit or loss. These offers will hamper, embarrass or actually prevent the advance. Therefore, until such time as most of the stock between the range of 70 and 80 has been absorbed by new buyers (who have no axe of long standing to grind) — or it has been "withdrawn" from the "supply" by those holding it because of a change in the "time element" and expectation of higher prices — the stock cannot advance. We can only occupy the enemy's positions on the battle front after the enemy troops have been "liquidated", "withdrawn" or "captured".

On the other hand, if the volume chart (as of months or years back) discloses light trading between 70 and 80 — you can assume that Chrysler will force its way through that range with little difficulty — as no stock will be "met" in that range (no troops to oppose the advance). In other words, under such circumstances 70 to 80 is not a formidable resistance point (or fortress).

The weight of volume traded in a certain range will have its effect on a stock even if it comes back to that point five, six or eight years later. Observe the resistance at the 144-155-158 levels on Dow-Jones Averages in 1943 — not withstanding that the Averages have not

been in that range since November, 1938. At the 194 level of the Dow-Jones Averages, still greater resistance is to be expected because that was the March, 1937 high and 194 has appeared on the Averages only once since 1931. Therefore, we can figure that 194 is a 12-year's resistance point and great difficulty will be encountered in overcoming it. Likewise, the 1929 high (386) will require high calibre cannon and "block busters" to smash it. That zone has been fortified and impenetrable for 16 years.

From time immemorial the varying aspects of volume have played an important role in the lives and aspirations of people. Wars have been fought for more territory — *greater volume.* The number of bombers available have played a gigantic role in the winning of this war. A rapidly growing population with *little volume* of land is one of the causes of the Japanese aggression in China, Manchuria and Pearl Harbor. It is *volume of production which affects profits.* A merchant cannot make profits until he reaches a certain *volume of sales. Too great a volume* of goods produced causes a price drop — (too much volume and supply). Gold is expensive because there is relatively little of it. If rubies or diamonds were produced in great quantities, they would be as cheap as marbles.

President Roosevelt cannot enjoy a fourth term unless he gets volume in votes. The fate of a country and the progress it makes depends on its relative *volume of intelligent,* productive and efficient workers. Germany has progressed in the industrial field because of her relatively high percentage (in volume) of intelligent and trained workers. China and Russia find it difficult to climb the ladder of industrialization because of the comparatively low rate of its population's efficiency. The American Army is winning battles with comparatively fewer casualties because of the high average of intelligence among its soldiers. If an officer is disabled the rest can carry on because they know what they are about.

Volume in every field of endeavor is important. The 5-and-10-cent stores can give much greater value for a dime than the small retail stores because of their capacity to purchase and manufacture in volume. Volume applies to character to a great extent. Compare the "lean and hungry look" (of Cassius) with the good humor and harm-

lessness of "over-volumed" men. King Solomon had a thousand wives and thousands upon thousands of horses, not for "utilitarian" purposes, but to impress the lesser kingdoms with his capacity for "volume". A country that has a great capacity for producing war materials will enter a war more readily than one which has to purchase its materials elsewhere.

Volume of trading on the stock market is likewise of *utmost importance.* If only 10,000 shares of Chrysler are for sale, the price will not drop perceptibly. But should 100,000 shares be looking for buyers, the price will drop considerably. With each succeeding wave of shares begging to be disposed of, the "bid" price will be lower. This may bring the stock down 20 points. Should an investment trust desire to purchase 10,000 shares of Chrysler, the price will not go up conspicuously. But should the same investment trust wish to purchase 100,000 shares of Chrysler, the price will register a broad advance.

In the event that the entire market recedes on a turnover of, let us say, 500,000 shares in one session — there is no reason to fear a further decline, as selling is not in sufficient volume to do much damage. But should the market drop on a turnover of 2,000,000 or 3,000,000 shares in one session — it is logical to suppose that more selling will follow and that prices will drop lower.

Volume also has its diminishing or saturation point. The economic law of "diminishing returns" is operative here also. Should the market drop in a single session on a volume of 7,000,000 or 8,000,000 shares — or should it continue dropping in four or five sessions at the rate of 3,000,000 or 4,000,000 shares a day — you can conclude that "climax selling" has arrived. The "weak sisters" have dumped their stocks already. Due to "demand" or due to the "vacuum" created by "empty shelves" a fast rebound should develop, boosting prices.

Of course, volume of decline is always "relative" to volume of advance. In 1943 a session of 7,000,000 or 8,000,000 shares would make the front page. In 1928-29 trading sessions of 7,000,000 or 8,000,000 shares were commonplace. Volume of a move must be

judged in relation to the previous move at that particular trading range.

Volume, like everything else in life, is *relative*. You cannot take round figures as a measurement of volume for any particular stock without taking into consideration:

(1) The number of shares in that particular stock;

(2) The relation of shares issued to the number traded (in all shares) in a given day or period.

A stock which has 40,000,000 shares can do a volume of 50,000 shares daily without attracting much attention in the change of the price range. Should a stock with an issue of only 500,000 shares do a volume of 50,000 a day — then it becomes a matter of prime significance. Should 50,000 shares of a 40,000,000 issue be traded during a day, on which the volume is, let us say, 1,500,000 to 2,000,000 shares — that would be of no particular importance. But should 50,000 of the same issue be traded when the total sales are only 500,000 shares (10% of the total trading) — it would call for a "Stop, Look and Listen".

You may pose the question that if volume traded is the basic element affecting prices — why then watch *volume* for signals — why not watch *price* changes? *Volume* is important, not because of its bearing on *present* price levels — but because of its bearing on the *future. Volume is a forecasting barometer.* It is an index which tells the story of the future, weeks and months hence.

A simple illustration: A newspaper advertisement by a department store stating that it has 40,000 "regular value" $100 radios which it will "close out" at $50 each does not stir you sufficiently to act promptly. Your reaction to the advertisement is that if there are as many as 40,000, you have plenty of time to get in on the "sale". They may not be able to dispose of the entire lot at $50 each and may have to sell the balance at a reduced price of $40 or $30 each — so why rush?

The identical advertisement with the quantity given as only 300 radios, however, would probably result in 300 or more people lined up in front of the store at 8:30 o'clock in the morning eager to buy at the $50 price. *There was no change in the price or quality of the radio itself.* In both instances the same radio was advertised at

$50; in the one case 40,000 were for sale indicating that *supply* was plentiful and, therefore, might push the price down; in the other case only 300 radios were available, scarcely sufficient to satisfy *demand.*

Now, let us return to the market. If there are 40,000 shares of stock pressing for sale — prices may drop perceptibly. But if there are only 300 shares, they will be sold without so much as creating a ripple. The logical query arising in your mind is that the comparison between the department store's advertisement and the shares of stock for sale is not fair because the dpartment store *states the quantity* for sale — whereas the stock market never tells you in advance how many shares are for sale, and at what price. That is precisely the point that results in difficulties because *the price at which you may purchase shares depends also on how many there are for sale.* In the case of the radios the quantity is a known factor. In the case of stocks, it is a closely kept secret. It would be very much to your advantage if *you, too,* could know in advance how many shares (approximately) there are for sale in each issue *through stop-losses and advance selling orders placed.*

Striking an analogy with our radio illustration — if there were 40,000 shares for sale at a certain price range, and a balance of 10,000 or 15,000 remain — this balance may have to be disposed of at a lower figure. Moreover, unlike our radio example (which when once sold *stay* sold) the same stock may be offered again for sale after the original lot of 40,000 are sold by the present holders. The new holders of the same stock — the recent purchasers of the 40,000 lot, noting a drop for no apparent reason may want to liquidate their holdings thus creating still greater pressure of sales and a further drop in price. In other words, the same 40,000 lot can create "supply" three or four times — each time at lower price levels and by new owners.

Therefore, when an insider desires to sell a block of 40,000 shares of a certain issue (and he is an "insider" just as you would have been if you dealt in 40,000 share lots), it is to his advantage to conceal the quantity which he has for sale.

This is where our study of *volume is helpful.* Don't forget that aside from "they" there is also the public with which to contend.

The public frequently exerts a powerful influence. It is usually more difficult to discern beforehand what the *public* will do than it is to figure out the direction which the *insiders* will take. After all, insiders and experienced traders follow logic and common sense, and you can do the same and come to similar conclusions.

Ordinarily, we do not expect insiders to buy when the market is approaching a Bear trend; nor will they become panicky when the market is in an uptrend. Public buying and selling, however is difficult to anticipate. There is neither direction nor precision involved in its trading. It acts without plan or system — rhyme or reason — so that only by analyzing the *volume* of buying and selling (and the class of securities traded) can we "smell what is cooking".

My task is to show you the methods and it is up to you to find the ways and means of keeping up these charts. The charts under discussion have two dimensions: First, the vertical up and down *price* movements by 1/8 point scale; and second, the *volume* on the horizontal scale. Of course, the "scale" used should vary according to the stock charted. On general Motors or U. S. Steel (with proportionately large volume of daily sales) the scale can be 1 "x" to 5,000 or 10,000 shares sold. With less active stocks the "scale" must be adjusted accordingly. In the latter case, 1 "x" to 100, 500 or 1,000 shares sold may be advisable.

These charts show: (1) The *price* movement of the stock up and down (vertical) by 1/8 point. (The *date* of the movement is posted on the upper portion of the chart). (2) The *volume* traded during the day. This can be noted by the width (horizontal) of the formation for that period. The wider the formation, the greater the volume. (3) The entire *price* range of the stock for that day is charted. The bottom formation shows the lows and the top formation the highs. The volume for the highs and the lows is, of course, charted uniformly.

By charting on a daily basis close study is afforded the trader. The necessary data can be found in your daily newspaper. The total volume of shares traded is adjacent to each stock — also the price range for the stock that day. Do not chart the closing — the high and low is all you need to know. However, the closing can be charted on the same chart by using a red pencil — or you can forget

about the high and low and just chart the closing. However, charting the high and low is preferable.

Weekly figures can be secured from the Sunday or Monday edition. Many newspapers give the total volume of shares traded for the week in each stock on Sunday or Monday (and some on Saturday), as well as the price range for the week. This is for those who only wish to chart the weekly figures and which is valuable for major trend trading only. The weekly volume formations are misleading because at times a stock will cover two price ranges in one week. The volume on one price range can be twice or three times that of the second range. Charting weekly figures the volume traded will naturally be distorted and misleading. Therefore, do your volume charting on a daily basis showing the high and low.

You can readily see that this method of charting is preferable by the very fact that it can be continued infinitum without having to subscribe to any "Information Please" for data or statistics which cannot be secured from the daily or weekly press. (Weekly information can be obtained from Barron's Weekly). All you need is a pencil, blank chart paper and a newspaper, and you are all set to go.

Charting the Dow-Jones Industrial Averages is most important. (And also Rails and Utilities). The method illustrated above can be applied to the daily Averages high and low. *A volume graph should also be made of the hourly Industrial Averages* if this is at all possible. In charting your daily Dow-Jones Averages, plot the volume figure of the *total sales of all stocks on the New York Stock Exchange* (not the sale of stocks in the Industrial Averages). Do the same with the Rails and Utilities.

I cannot over-emphasize the importance of charting the Dow-Jones Industrial Averages daily according to this method. Charting and studying the Averages will gradually unravel the "mysteries" of the market for you. *Volume charts, however, do not show trend lines in "time" and, therefore, you should also keep up another set of charts on the Dow-Jones averages based on price readings and not on volume.*

In charting the Dow-Jones Averages some compromising is necessary. Sales in individual stocks are negotiated with price differentials of 1/8 point. The Averages, however, are tabulated in decimals,

as for instance, 132.34; 132.88; etc. Each square on the chart represents .125, or 1/8 point. So that in charting the Averages you will have to compromise by inserting prices in the square nearest the figure. For example: If the Dow-Jones Averages high is 132.10 or 132.15, place an "x" in the 1/8 square. But if the figure is 132.20, use the 1/4 square because it is nearest to .250, 1/4 point.

In charting volume, insert horizontal "x's" according to the volume traded. If 5,000 shares have been traded and the desired "scale" is one "x" for each 1,000 shares traded — insert the letter "x" five times. You will gradually develop a picture showing where volume predominates — whether on the up or down move. It is a configuration which cannot be ignored.

If you will compare my procedure of charting volume and price in one picture with the "bar method" utilizing volume lines under neath, I am sure you will find that my method has the greater advantage. It is because I could not "read" bar-type volume charts that I worked out the method described for my own use.

You see the whole thing at a glance — also showing the *relative* importance because a widening-out of trading also broadens the formations on the chart horizontally, *giving it breadth.* The down movement is accentuated with the horizontal volume figures. It is all so much easier to see and to interpret. You connot fail to visualize resistance points sharply outlined which is vitally important in trading.

True, we do not arrive at our market forecasts by charts alone. Other elements of a political, economic and psychological nature are definite factors having a bearing on market forecasting. However, after due consideration of these multiple factors it is the charts which will disclose the market's direction and enable us to determine the course we are to pursue.

How is one to judge "technical action" of the market as a whole? The Dow-Jones Averages are utilized for this purpose. If last week the high was 129.61 and this week 130.60 was reached — the charts are simply substantiating the advance. If the low last week was 125.38 and this week 127.42 — our deductions are corroborated. Not until the picture on the graph changes should you alter your ideas on the

market's direction. There on the chart before you will be the picture of a stock's movement — its highs and lows.

For the purpose of discussion, let us say that the movements are downward — consecutive weekly downward steps. You will observe this on both the lows and highs. The market drops until the Averages reach 121. A rally developed which brought prices up to 132. Compare the action of individual stocks in this rally. Proceed to make a study of the 20 issues which you have been charting and on which you have entered all the highs and lows. Among them is a stock with the *low for last week above the lows for the previous three weeks.* On other stocks the *low of last week* is only *above the lows* of the previous *two weeks. The stock which surpassed the performance of the others in sustaining higher successive lows by one additional week is the stock to buy for a rise.* Comparatively speaking, that stock is "raring to go", having already obliterated the last *three weeks' lows* — whereas most of the stocks could overcome only the last *two weeks' lows.*

Further, observe the *highs* charted for the last week on the same stocks and you probably note the identical phenomena. In most cases the issues which exceeded the previous three week's *lows* also exceeded one or two weeks of previous *highs.* This is an even better sign. *Search among your 20 issues for the stocks which overcame previous resistance points for a longer period than the rest. These are the stocks to buy for a rise.*

A comparison should also be made between the *stocks* selected and the *Dow-Jones Averages. How did your stocks perform when compared with the Dow-Jones Averages?* Did the *low* on the Averages go above *three weeks* of previous *lows* — while your stock only went above for a period of *two weeks?* If so, your stock is *worse* than the market (the Averages). If the situation is reversed — the Dow-Jones Averages discounting only *two weeks' lows* and your stock overcame *three or four weeks' lows* — then your stock would be *better* than the market.

In this connection also the *high* reached must be taken into account. Did the *high* on your stock exceed the *previous week's high?* If so, this would be favorable — and if it went over an *additional week's high* — this would be even better.

You now have complete instructions on how to chart the highs and lows — and how your chart should be utilized as a daily barometer for the action of individual stocks and the Dow-Jones Averages. The picture is quite perfect because it is in 1/8 point degrees which is the actual value in which stocks are traded.

Do not fail to consider the volume on which a stock retreats or advances. If the volume expands horizontally after a good-sized advance more than during previous weeks or months, without the price structure advancing sufficiently to compensate for the widening-out of volume — you are justified in suspecting that *a top for that stock* is developing. If your stock declines during a certain week and the horizontal formation is narrower than during previous weeks — the indications are favorable. If your stock advances during a certain week with the horizontal squares narrowing in width, indicating there is no volume to the advance — there is something to think about. The move may be at an end.

For the benefit of minor trend and short swing traders who would like to ascertain how "volume" conclusions can be reached by a fast study while the tape is "clicking" — I will cite a "case history" of how one can buy and sell stocks on a "vest pocket" study of volume.

Chrysler opens with a sale of 700 shares at 81 1/8. Then 2800 more shares of Chrysler were traded between the hour of 10:00 and 11:00 o'clock at slightly lower figures than the opening. This is a signal that the stock is due for a decline. I reason as follows: If 700 shares were sold at the opening of the market at a higher price — and on 2800 additional shares the price dropped 1/8 point in the next hour — it is wiser to wait because there probably are more shares to be sold. The "tape" does not fool me. In the hours between 11:00 and 2:45 o'clock 9,200 shares change hands and the price was as low as 80 3/4. My suspicions are confirmed. More shares are obviously looking for buyers. To top it off, 1,000 additional shares are sold between 2:45 and 3:00 o'clock — closing at 80 1/8, a loss of 1 point for the day.

Now, I presume you wonder why I divided the trading period into four parts: (1) the opening; (2) the period between opening

and 11:00 o'clock; (3) 11:00 to 2:45 o'clock; (4) 2:45 and closing (3:00 P. M.) The "time element in miniature" is the answer.

The opening price of a stock is an important indicator. During the night many orders arrive from traders who are not habitues of brokers' offices — who after studying their evening newspapers and charts forward orders to their brokers to buy the next morning "at market". (In peace times "cable orders" arrive from all parts of the world). If there is demand — especially if good news has been broadcast — the opening price will be higher and the volume larger. (In the specific case cited the volume was small — only 700 shares — thus indicating from the outset that the stock was "weak" for the time being).

The hour from opening to 11:00 o'clock is usually the "testing ground". If demand created by the opening price increases — the price will advance in that hour. If the opening is high as a result of good news — some traders may cash their paper profits during that hour. If the demand is weak, with no good news in view — some traders will sell fearing still lower prices. From 11:00 to 2:45 o'clock all shares traded can be taken as a unit. There is no special reason for considering them separately. The period between 2:45 and 3:00 o'clock (closing) is, however, of particular importance again.

Some traders wish to close the day without any holdings on their hands. Still others prefer to buy or sell — depending on their analysis as to what the next day's opening may bring. Hence, this quarter hour usually indicates the consensus of intelligent trading opinion regarding the following day. Accordingly, I have set this quarter of an hour apart showing it as a consideration in itself. On the day in question between 2:45 and 3:00 o'clock 1,000 more shares of Chrysler appeared for sale at a still lower figure — informing us beforehand that the next morning (all things being equal) there would in all probabilty be a lower opening.

In keeping with our expectations the market opened lower *but the picture changed and the deductions, therefore, were quite different.* The stock opened with 2,000 shares at 79¼. This was something to think about. It indicated demand *at that price,* and usually this prevents a stock from going lower. Observing the stock's action on the tape I inferred that there was a good demand for Chrysler at

this level and that meant this was a good time to buy for a short swing.

Due to the opening on *greater volume* — and the fact that the volume and demand kept on increasing — I decided not to wait until 11:00 o'clock, but to get in while the going was good, as the price was of interest for a short swing. Therefore, I bought and was compensated by the stock moving up to 81½ on a volume of 22,000 shares. Demand was certainly increasing. Between the period of 2:45 and 2:55 o'clock there were 2,000 shares of stock traded, and the price was brought up to 83¼.

Reviewing the entire situation from the standpoint of a day-to-day trader, I decided to realize on my paper profits. However, I waited until a few minutes before 3:00 o'clock because the stock had been strong all day. It was unlikely that it would sell off at the close. I sold at 83½. The next morning "C" (Chrysler) opened at 83⅜ on a sale of 1500 shares. Not a very good sign. It indicated that some traders who bought at lower figures preferred to sell out at the opening — cashing in on their profits.

Finding myself in a liquid position, I could again afford to be a "non-partisan" observer. During the day 24,000 shares of Chrysler were traded with a low of 81 and the stock closed at 81. I could not fail to notice that *most of the trading during the three days had been at progressively higher levels.* I also noted that the *volume increased as prices went up.* A good sign indeed. However, since it was close to the end of the day I would do nothing, but would watch the next opening.

The first order in the morning was executed at only ¼ point below the previous closing. The hour from 10:00 to 11:00 o'clock brought the price up to 82⅛ *at four times the volume.* I considered this a favorable sign and bought. Between 11:00 and 2:45 o'clock 11,000 shares were traded with a high of 82⅝. The next day I was rewarded with the price mounting to 84⅛. *The volume of trading, however, diminished to* 10,000 *shares showing decreased demand.* I held on, however, as 84⅛ was a higher level than previously reached — and besides, Saturday is only a 2-hour trading session. I preferred to see what the stock would do at this point.

Considerable shares were traded at the 84 level. Chrysler attempted to make 84$\frac{3}{8}$ on 1,000 shares, but had to come back directly. This was not a favorable sign. *If volume broadened without a progressive advance in the price structure — cash was preferable to stocks.* Around the 84 level I sold out. The stock began to react downward.

I consulted my charts and noted that while the advance had been consummated on good volume — the decline to 80½ which followed was accomplished on only 1,000 or 2,000 shares at a time. On the tape I also noticed that the stock moved up on a light volume to higher levels reaching 81. The chart revealed that the stock had formed a "triangle", and that now it was at the end of the apex and should "break" somewhere.

By employing common sense in scrutinizing the chart I was led to believe that the break would come on the upside. Why? Because the steps on the chart leading toward 84 were accomplished on greater volume than the steps on the downside leading to 80½. By drawing trend lines on my chart I also found that the steps all led upward. I drew a line from the top connecting high points of the upper line — simultaneously drawing a line also connecting the low points forming the lower descending line. There was only ⅛ point separating the minor trend of the stock from its intermediate ascending line. (This is really the "triangle" line formation).

Once again I decided to buy. The gods favored me. The "triangle" did break out upward. But, as all good things must end sometime — and as a "story" must have a happy ending — I will end this one while the "going is good".

* * * *

The simple believeth every word: but the prudent ***MAN*** *looketh well to his going.*— (The Proverbs)

CHAPTER XV

Dow Theory
For Long-Term Investors

IN THIS chapter I shall endeavor to analyze and explain Dow Theory as formulated by Dow with modification by Hamilton. Most market theories have their roots in the Dow Theory — and in the research initiated by Charles H. Dow, founder of the Dow-Jones Company and one of the owners of the *Wall Street Journal.* William Peter Hamilton who collaborated with Dow prior to the latter's death published a book in 1922 entitled "The Stock Market Barometer". Read it for a complete understanding of Dow.

An analysis and explanation of Dow Theory, and its relation to the market, is essential to every trader. The most valuable commodity is *knowledge.* Nobody can either confiscate or "tax" it. Besides, knowledge will always be in demand no matter what the form of government may be. President Roosevelt bitterly fought the "money changers", but "called" on them to win the war for him. Stalin exterminated the "rich", but made "peace" with the Czarist engineers and generals so that they would build up his factories and the "army of the proletariat".

I do not teach nor trade by Dow Theory — nevertheless, I do not fail to take it into consideration in my market analysis. There are entirely too many "believers" in Dow, and if only for "safety" sake I must watch what they are doing. You know by this time that in the market it is not what *you* think that counts — but what *others* think.

What I shall try to do in this chapter is to clear up the "mysteries" concerning Dow Theory, and in so doing I hope to present to you an additional tool which will prove useful for successful trading. Much that will be presented has no direct connection with the Dow Theory, but is intended to help you make practical use of it in your trading. All opinions, interpretations and remarks concerning Dow Theory are my own, and do not necessarily conform to "interpretations" of Dow by others.

Dow Theory can best be utilized to advantage *as a forecast of business conditions* because a drop in stock prices usually occurs while business is booming. In adjusting itself to future business conditions (which it discounts), the market gives a peremptory signal by a drop in prices of individual stocks and the Dow-Jones Averages.

Dow Theory concerns itself primarily with *major movements.* Six months or more may elapse before "signals" given become effective. In 1937 it took six months (from March to September) for Dow Theory to prove that a Bear market *began in March.* To prove that we were in a Bear market in March, it took a decline of about 30 points (from 194 to 165) – an advance of 25 points (from 165 to 190) – a decline of 24 points (from 190 to 164). While stocks were in this "testing area", commodity prices and business began to decline.

The signal in 1937 was "good enough" for stock trading, as the market dropped another 65 points. In 1938-39-40-41, however, trading by Dow Theory resulted either in losses or in small profits only. Some "signals" came entirely within too close a range to permit of a profitable (or break even) turn-about face.

The primary step in Dow Theory is the charting (or memorizing) of Industrial and Railroad Averages. The trend can be ascertained from the fluctuation of these Averages. The Theory assumes that when the market goes down it discounts the trend of business. (This in turn will affect the market later).

As you are well aware, there are three definite movements in the market – major, intermediate and minor. The major movement can go on for six or eight years, and even longer – depending on fundamental conditions. *The Dow Theory does not take cognizance of the daily movements of stocks – either up or down. It recognizes only major movements.*

I shall submit an example of Dow Theory as it operated during 1937. The Bull movement (1932) continuing through 1936 and up to March 1937 (with some interruptions) gave an indication of a reversal in September, 1937 – when the market pierced through the June lows of 165 on the Dow-Jones Industrial Averages. This was a drop of about 30 points from the high of 194 in March. When the market recuperated in August, and the Averages went up to

190 but failed to top 194 – to the Dow Theorists this was still no definite sign of a reversal – (although to ordinary mortals it indicated weakness by many stocks topping and by failing to negotiate or go over 194). There was no "confirmation" of a Bear market until the Averages fell below 165 – consequently, Dow adherents continued to maintain their long positions. When that point was pierced, however, Dow Theory stated with certainty that we were in a major Bear market (at 194 in March) and selling was advisable (at 164).

In a broad sense this is an example for the basis of Dow Theory. If you adhered strictly to its principles it meant that you held on to stocks during March, April, May, June, July and August, when the market went down from 194 to 165 and up again to 190 until the June lows of 165 were pierced downward in September. Only then did you liquidate your stocks. (Re-purchases by followers of Dow Theory were made in 1938 at 122-127 from a low of 98).

One should become familiar with Dow Theory. (Do not confuse Dow Theory with the Dow-Jones Averages). I trade from implications which market action reveals on individual stocks, and on the Averages. I watch and study barometers, indexes and symptoms developing out of the economic and political structure. I do not follow Dow Theory – but I watch it closely because of its many adherents. I view it as just another barometer. Followers of the Theory buy and sell accordingly and, therefore, this exerts its own influence on the market. (In the last few years this influence has been negligible).

You have already gathered that the market in its fluctuations of price and volume *expresses the sum total of the intelligence, knowledge and foresight of the industrial, financial and political brains of the world.* To Dow Theorists the *Averages* are much like a seismograph recording every quake and shock among the nations of the world – expressing the plans and intrigues of Kings, Prime Ministers, Dictators and national political leaders and the effect they may have on us. In this respect the stock market almost measures up to the greatness of Jehovah, for it is omnipotent and omniscient and is aware of all the mysterious forces in the universe.

When an industrial or political leader senses certain changes in the social or economic structure, he either buys or sells stocks. What-

ever he does depends entirely upon his outlook. *That is why the market fluctuates.* People have divergent opinions as to what the future has in store for us. *When opinions cease to vary and become so clearly defined that disagreements no longer exist — and the great majority can see things only one way — we have either a great boom or a panic.* But climaxes in either booms or panics last only a short time and rarely appear more than once in a decade. It is impossible to capitalize on such factors. This particular phenomenon must be foreseen long beforehand to be of much benefit.

To come to the point: The market, representing as it does all the accumulated knowledge, brains and foresight in the world, expresses that knowledge through the Averages. Buying will advance the price of the Averages — selling will lower them. Dow Theorists use Dow-Jones Averages because they watch Dow Theory, but there are other Averages, as for example, the New York Times or Herald-Tribune. For analyses in My Market Surveys to clients, I make use of *four additional Averages* which I designed. To compute *my* Averages for one day consumes over two hours on an intricate calculating machine.

The Averages express the differences of opinion of world leaders through the *major* up and down movement of prices *over an extended period.* Daily fluctuations can give no real indication as to the combined opinions of the intelligence of the world because the scope of these market movements is too narrow. The mentality of the world is a more definite instrument. World opinions, because they are precisely an expression of economic classes and interests, are deeply rooted in history — past and contemporary — which *minor* stock movements could not register.

All of this is accepted as "gospel" by all good traders, including Dow. As a Dow theorist, however, *one pays no attention to the minor movements of the market.* Stocks may go up during a minor movement despite the fact that the intermediate and major trends are Bearish. Minor "testing" and trading by insiders (on dull days to keep the tape "going") — and the "fears" and "hopes" of the public — put these tremors in motion. They are to be disregarded as far as the telltale story of the Averages (a-la-Dow) are concerned. The intermediate movement may be in an up trend, but no Dow Theorist will buy stocks if the major movement is in a down trend. The inter-

mediate trend is a process of correction on the "over-run" of the major trend occasioned by too much Optimism or an overdose of Pessimism.

The three movements of the market interlock and have an effect upon one another. *Only by its major movements* does the stock market express, through the Averages, the combined opinion of the world. Nothing of this is expressed in a minor movement, and very little in an intermediate movement. If world opinion changes when the market is in an intermediate corrective movement — it will develop into a major movement, depending entirely on the shifts and turns meanwhile occuring in the world. *If you follow Dow to the exclusion of all other theories — you must not be influenced by either barometers, news, politics, war or peace. Dow theory sees and absorbs everything. It discounts everything in the long run by changes in the price of the Averages.*

You must also forget that the market is at times artificially stimulated. You must assume that everything in the "Street" is controlled by the forces enumerated. Only minor movements affecting the daily fluctuations of prices can be manipulated. (Manipulation pools are now taboo). Dow Theory never claimed that minor movements were of any particular significance. Some Theorists even disregard the intermediate movement, except when it transcends this range and becomes part of the major movement.

At the risk of repeating myself (which I do purposely so that by repetition the ideas expressed will be thoroughly absorbed), I will state that a major movement is generally known as a Bull or Bear market, and may continue for several years. *It is governed entirely by fundamental conditions and the economic cycle in which we happen to be. In a major movement there inevitably are intermediate reactions — frequently retracing one-third to two-thirds of its previous direction. Intermediate reactions are the result of technical market conditions,* and of the over-exertion and abnormal extension of the previous opposite move. (The pendulum of optimism or pessimism swung too far away from "normal"). The major movement, however, remains in force.

As an investor you must know whether the market is in a "major" or "intermediate" movement. For example, if you bought stocks in a "Bull" market (major) for the long pull, and an intermediate re-

action sets in which drives the price of your stocks down — you need not be overly concerned since the major up trend must eventually come back. (You ask, what if it does not come back? That is exactly where the difficulties come in when trading by Dow). If you have made the unforgivable mistake of purchasing stocks in a major "Bear" market during an intermediate rally (which appeared like a Bull movement to you) — your hopes of recuperating losses within that movement are rather slim — (no matter whether you traded by Dow or any other theory).

Dow Theorists follow major movements only. They buy at a period when sufficient signs denote that a Bull market is in force (not at the bottom). They hold on through all sorts of minor and intermediate reactions until Dow Theory indicates that the *top of the Bull market has been seen months past* (and at much higher levels at times) —— and only then do they sell.

The difficulty with Dow began after 1937 when Bear and Bull markets alternated in a range of only 30 points — and with "no room" to make a profitable turn. Like a big Packard, Dow Theory cannot turn "on a dime". A good common-sense trader can make money in the market by following Dow *with moderation.* But common sense in itself is more profitable than using a "Dow mixture".

When following Dow Theory, you must watch whether the Averages of "Railroads" and "Industrials" confirm one another. In a normal healthy market Industrials cannot succeed without Rails following more or less in harmony, and vice versa. If industry booms, rail traffic increases enabling rails to show profits. Consequently, higher prices for Rail stocks are expected. If the situation is reversed, rails are affected and obviously must drop. When one of the Averages lags behind the other, it is a sign that the economic structure is not sound.

This Dow rule is becoming increasingly difficult to follow for the reason that since the advent of busses, trucks, aviation, etc., rails have become a "matured" industry with little hope for expansion and growth. When Hamilton developed the Dow Theory he could not have foreseen huge air transports carrying passengers, freight and mail. Watch and see if the role of rails as carriers does not diminish substantially after the war when aviation is expected to take away

from the rails about 70% of their "pullman" traffic, and perhaps 20% of their freight and express. By that time perhaps Dow will use "Air Transport" as the *"confirming"* Average.

The Dow Rule of "confirmation" is costly at times. In February, 1941 the Industrials dropped 10 points (from 127 to 117) before the Rails dropped 1 point (from 28 to 27). Dow traders lost 10 points in the Industrials awaiting a 1-point "confirmation" by Rails. "Insiders" just love to go fishing in the "Dow lake". "They" know Dow Theory as well as the "followers", so it is like "robbing a cradle". Create a "certain situation" and results will follow like "night follows day". "Suckers" bite hard on Dow "bait". To "believers", Dow is "holier than thou" — it is almost "religion".

Danger signals are indicated by Dow Theory when *rallies fail to exceed the previous high in a "bull" market — and when declines penetrate previous lows.* Reverse these "symptons" in a "Bear" market. The degree of the decline or advance which signifies a change of trend need not be severe and, of course, will subsequently be confirmed by the next rally or decline in the direction which it takes, as well as by its severity. *Volume must increase* to make a signal effective. That accounts for the "mistakes" and the various "interpretations" of "signals" by contemporary Dow Theorists.

In addition to watching the Averages you must look for *bases of accumulation or distribution.* (Dow called it a "line"). There are books and literature dealing with Dow Theory and you can complete the studies I have begun here. You may find, however, after reading the books on this subject that the modest explanation given herein is more than sufficient and perhaps more practical.

I advise you to study Dow Theory, but I do not recommend following it (for profits) until Bull and Bear markets again move into a "track" of 100 points or more. The "remains" after Dow takes you "safely" into the market and out again, leave no room for profits in narrow range markets. For years past there was no "chunk of the middle" to repay you for your efforts and risk. And the essence of Dow Theory is to get the "best chunk of the middle".

I will give you here a few common sense rules which can be of value to every investor and trader, as well as followers of Dow The-

ory. These rules not only hold good for the Dow-Jones Averages, but also for any other Averages which you may be using. Moreover, they can be applied to each individual stock in which you are dealing, as well as to the Averages. (Dow Theory does not apply to individual stocks).

In submitting these rules I make use of certain figures and numbers. It goes without saying that the same rules apply to any figure or number. Please bear in mind that some of the rules which follow are not according to Dow Theory.

RULE "A" A stock has made a high of 145 and bottomed several times at 125, and in its decline did not penetrate 125 but stopped short at 126 beginning to recover lost ground — this is a safe time to buy for an advance to 145.

If in approaching 144 or thereabouts the stock hesitates and does not show penetrating powers to go above 145 — it is a good time to sell and take profits. It is also advisable to sell short at 144 with a stop-loss at 147. At this point (147) you should not only cover your shorts — but purchase an equal amount so as to ride up with the stock over 147 — thereby making up the losses from 144 to 147 on the short side. (This rule is *not* Dow Theory).

RULE "B" When a stock has declined to 98 — advanced to 119 — declined to 108 — and has then begun its advance upward — the point to watch is 120. If it makes that it is a sign that it will advance farther. If it cannot make 120 and declines to 107 — it is a sign that it will go down still farther. (Dow Rule). A short position should then be taken with a stop-loss at 109. (Not Dow).

RULE "C" If a stock has advanced from 108 to 145 without a reaction, it is to be expected it can normally react 24 points to 121 without changing its upward trend. However, should it decline more than 24 points (or two-thirds of its advance) — it is to be assumed that it has altered its trend from an upward to a downward course. It is a most favorable indication when a stock retraces one-third to one-half of its advance. (A little Dow).

Under the Dow Theory the Railroad Averages must act in conformity with the Industrial Averages. If Industrial Averages rise to new highs and Railroad Averages do not — failing to confirm one another — it is a danger signal. The advance of one group of Aver-

ages cannot be taken into account as a "signal" unless confirmed by the other group of Averages. According to the Dow Theory you must wait for a confirmation of one by the other before entering or leaving the market.

RULE "D" What is true for the Dow-Jones Averages holds good for individual stocks. If "X" has reached 53, receded to 48, advanced to 52½ refusing to go farther – it is not a buy unless it makes 53⅛ or 53½. If it reverses itself, going down to 47 – it is not a buy when it again reaches 49 or 50. In fact, a short sale can be made at the latter point, as it will most likely go down.

If, however, it makes 53 or 54 (from 48) and recedes to 49 – it is a buy at this point because it will most likely go up to 58 or more.

By this rule you can see that the policy of individual stocks is the same as with the Dow-Jones Averages. What you should watch for is what most traders consider "new highs". This may not be the place to buy and it is advisable to await a reaction. But do not expect that reaction to go back to 48. It will probably stop at 52 or 51. That is a safe place to buy for a further advance to about 59 or more. (Not a Dow rule).

* * * *

Hear counsel, and receive instruction, that thou mayest be wise in thy latter end.

The sluggard will not plow by reason of the cold; THEREFORE shall he beg in the harvest, and have nothing.

The thoughts of the diligent TEND only to plenteousness; but of every one THAT IS hasty only to want.

—— (The Proverbs)

CHAPTER XVI

"Success" Rules

EVERYTHING in this world is governed by certain physical and immutable laws. This is one of the primary doctrines of science which we learned in school. The earth rotates around the sun according to set laws and the moon completes its rotations around the earth with mathematical precision. Everything tangible and intangible in the universe is propelled and controlled by laws and rules.

So also, are there definite laws governing our behavior which, if we follow, are bound to help us succeed. If we act contrarily and violate these laws, we most likely are doomed to failure.

Stock market trading is integrated into our economic system and specific laws impel its movements, even as with our own lives and with Creation. One cannot become a successful trader until these rules and laws are thoroughly absorbed and become "habits" with us.

Rules at best can only serve to preserve one's capital by minimizing losses. The Ten Commandments are mainly *negative. "Thou Shalt Not Kill"*, for example. One gets no medal for *not* killing. This rule merely keeps you out of jail, or saves you from the annoyance of dying on the gallows. But rules cannot make profits for you. There are no (*positive*) rules or laws to keep you healthy and prosperous. If you want sunshine, vitamins, good food — you must go out and get them.

It is necessary to have a thorough understanding and complete grasp of the underlying forces propelling the movements of stocks. These forces must be observed sufficiently in advance so as to enable you to act on them. Then, too, you must have the patience to wait for these forces to develop and amplify, and to wait for the maturity period growing out of the causes and conditions seen long in advance.

Laws are either man-made or are an attribute of nature — the former developed through the centuries to guide the relations and

behavior of men. Laws such as the Ten Commandments grew out of the necessity of the time and have remained constant throughout history. But laws and rules are often violated, while *custom* and *habit* remain more steadfast. *We find great difficulty in deviating from a habit once it is formed.* The rules and laws given in this volume are *vital* — and in time should develop into *habits.* But you must learn to use them *only* when they are in *harmony* with the *time element* and with *common sense.*

Rule 1. If you are just beginning to trade in the market and have no profits to your credit — trade only in an imaginary way rather than with actual money. After reading this book, if you think that you have learned enough to put your knowledge into practice — prove it to yourself by "buying and selling" *without money.* Enter every purchase (with ink and not pencil) in a ledger as though you had actually given an order to your broker. Add ½ point for commission and taxes. Execute your buying and selling at the time you think most appropriate — just as though you were trading with real money. *Neither fool yourself nor your ledger.* "Know thyself, and unto thine own self be true . . . "

After a few months of this type of trading, strike a balance sheet. Learn how many times you were right and how many times wrong. If the *times right* exceed the *times wrong* (not how much money you won or lost) — go ahead and trade with money — but not with very much at the beginning. Ten shares are quite sufficient, and if you profit you will build confidence in yourself. Thereafter, you may increase (and keep) your trading within your means.

Rule 2. It is only by practice and study that you will finally learn how to trade. Naturally, in angling for experience you (like all of us) will make plenty of mistakes. Therefore, if you have $10,000, let us say, at the time of your initiation into stock market trading — you must figure on losing a good part of it before you will make much headway. So try to learn stock market trading at the lowest possible tuition fee. You have plenty of time to play in 100 and 1,000 share lots after you have learned how to trade profitably — and this may take a few years. Should you start practicing with 100 or

1,000 share lots, you may not have enough money left after you have learned how to trade. If you are alert you will learn more from experience and actual cash trading than from this or any other book. Practice is what you need. "Baptism" under fire is what develops a "rookie" into a "veteran".

Start low and grow as you go along. Better still, trade on paper until you show "paper" profits — then trade with cash and learn to "cash" your "paper" profits.

Rule 3. Do not constantly trade in low-priced shares. On higher priced-shares the chances of profiting *quickly* are enhanced. Low-priced stocks allow for a greater percentage on investment at times — but higher-priced stocks have a faster turnover and are better "company". In low-priced stocks the moves are few and strictly "seasonal". Higher-priced stocks move more frequently and, therefore, afford more opportunities.

Rule 4. Do not cover margin calls. Why put good money after bad? (Of course, it is best to limit your trading to your capital only — buy outright). You must admit that if you are called on to put up more margin that you have either bought "poor" stock, or that you bought at the wrong time. You should have liquidated your purchase before the margin bugle called and started anew by buying the *right stock* at the *right time.*

(If someone owed you money and you could not collect it — would you lend him more money?)

Rule 5. If you have been "unlucky" in the market (and who hasn't been at one time or another) — do not attempt to trade with the thought of *making* up your losses. If for any length of time you have been unlucky — it is best to stay away from the market for a while. Think over what you did that caused the losses. When your mind feels rested you can begin again — *but not with the view of making up your losses.* Trade with the object of *making profits.*

Rule 6. If you sustain losses on, let us say 100 shares — do not trade next in 200 or 300 share lots in order to make up your previous losses

in a hurry. You may have another bigger loss on your hands. When trading, just continue in 100 shares as you did on the losing side. Never try to take "revenge" on the market. You will never succeed in that frame of mind. Increase your trading only after you are "winners" — but not when you are "losers". Trade in the market because it is ripe for a trade. Otherwise, it will lead you into taking undue chances and cause additional losses.

Rule 7. Do not trade with someone else's money — whether your broker's or money borrowed from your friends. Do not take money out of your business for trading purposes unless your business has a large surplus for a "rainy day". Do not trade on the market if it causes you anxiety. Do not trade with money which you can ill afford to lose. Before attempting to trade make certain that *all your obligations have been discharged,* and the financial affairs of your family are in good shape.

Rule 8. Do not be discouraged if you make mistakes. The best traders make them. But learn to profit from those mistakes and try not to repeat them. Endeavor to find out the underlying causes. Do not place faith in "luck". If you think it is luck that makes the market fluctuate — you will never become a successful trader.

(We all make mistakes — but only a fool or a weakling repeats them).

Rule 9. Be skeptical about any trade that appears to be a "sure thing". When you are 100% certain that you will come out ahead — that is just the time to look about with a critical eye and perhaps forego that particular trade. The market may have many surprises in store for you. There "ain't" any such animal as a "sure thing". You are entitled to profits when you "speculate" in "risks". Once "risk" is completely eliminated (by "sure things") — you should expect a loss and not a profit. ("Peculiar thoughts", you say — but rest assured that what the "Masses" consider "normal" will never make profits for you in the market).

Rule 10. Do not "average" your stock if it goes against you. Do not buy more of the same stock at a lower price if it has already dropped.

"Averaging" upward is good policy — when you already have profits. Average *profits* but not *losses.*

Rule 11. Begin a trade with the expectation that your profits will be 4 or 5 times your risk. If you anticipate only a 2 point rise — do not buy because you can quickly lose 2 points in the market. Wait until your analysis shows a possible advance of 8 to 10 points. Then risk 2 points on a 5 to 1 shot. Theoretically, it means that you should trade only on intermediate trends, and not on minor trends. (Calculate this "formula" on a *percentage basis* according to price of stock).

Rule 12. Learn to be patient. Guard against hurry-scurry. If you have calculated that your stock will move up a certain number of points — and you think that you are correct in your analysis — have the patience to wait. Your calculation may materialize a few days (or few minutes) after you have sold your stocks at a lower figure. The test of a good trader is the degree of *patience* which he can muster when right. If you have *patience,* you can make only *one* "mistake" in a move (right or wrong). If you lack *patience,* you can be "whipsawed" many times in *one single move.* (The world might very well have been destroyed in the days of Lot if the good Lord had been without patience. So says the Book of Books).

Rule 13. Do not permit your opinions about political matters to influence your market judgment. You may have a "soft spot" for the under-dog and sympathize with the "New Deal", "oppressed peoples", "labor", and other "causes" — that is your "private" affair — but marketwise consider speeches by the President objectively so that you may gauge every possibility and reaction. What may be perfectly "right", and even "noble" from a "social, moral and religious" standpoint, can be 100% wrong from a market standpoint — ("freedom from want" and "soak the rich", for example).

Learn to exercise professional judgment as regards your stock market operations. Do not allow political leanings to interfere with your trading. You cannot ride two horses at the same time. If you could — you would be in the circus. (When in Rome, do as the Romans

did. They threw Mussolini out because of political leanings which interfered with the welfare of the nation).

Rule 14. A principle to follow is to trade in equal share lots. For example: If six trades are consummated, each in 100-share lots and you profit in four trades and lose in two — there are still two trades marked up on the credit side of your ledger. It is vitally important to minimize the losses on the two losing trades. For instance, if you profited 4 points on each of the four trades (total gain of $1,600) — your losses on the remaining two trades should not exceed $400 each. In that case there will still be $800 to your credit.

Rule 15. Do not try to squeeze your stock for the last point or two. If you have made a substantial profit it is best to cash it if the market is about to turn the other way.

When the market reaches the stage where you think it is forming a top — it is advisable to place a stop-loss order with your broker fractionally below the last sale. Should the stock move higher, you will gain the additional point or two which the stock may make by protecting it again with an advanced stop-loss. At the same time, your paper profits will be protected. Best of all — *do your own selling*. A "stop-loss" sale usually means lower prices.

Rule 16. When you decide to take profits by selling do it on an up move while the stock is climbing. Do not wait until the movement exhausts itself — or a reaction sets in — as you will then have to sell for less, either directly or through a "touched-off" stop-loss.

(*Strike while the iron is hot*).

Rule 17. When buying during a reaction it is best to place orders at stipulated prices *under the market* (near a previous resistance point) — instead of "at market". When buying while the market is advancing — it is best to buy "at market" — as otherwise you may not get stocks at your price and an opportunity may be lost.

Rule 18. A good time to sell is on a "late tape" in an up market. A good time to "cover" is on a "late tape" in a down market.

Rule 19. It is bad policy to trade long and short at the same time. It is best to trade in the direction of the trend only. A trade in the opposite direction of the trend costs just as much money as a trade with the trend. The chances are better *in the direction of the trend.* Why perform tricks? Only high grade "technicians" could profit by trading "short" those stocks which completed their move and trading "long" the "laggers" at the same time.

Rule 20. Do not trade in stocks on the basis of their statistics. The statistical position of a stock does not make it a good or bad stock for trading purposes. It is *now* that counts — and not what *has been.* Statistics show only what *"has been"*. Economics is alive. Statistics are past history — dead documents covered with dust. *Price appreciation is based on supply and demand* at the moment — due to future prospects — and not on statistics (based on past performance). These have been "discounted" by the market months or years past.

Rule 21. Never enter the market with the thought of buying something specific with your profits, such as an automobile, a home, or a cruise around the world. There is danger that such a "wish may become father to the thought" and, consequently, entering the market at the wrong time due to your "urge". Buy your home or automobile and take your cruise with profits made in the market. In fact, it is the surest way of "holding on" to your profits. But don't enter the market *because of that.* Trade because the market calls for a trade — and not because it owes you an automobile or a wife. (Yes, in some countries I visited a "wife" is still "bought" from her father — as one would a horse or an ass. The price paid depends on her capacity to work for her husband. If the husband made a "good, healthy" purchase — he stops working).

Rule 22. Search for those stocks which have enjoyed the greatest rise in selling short. "It is the tallest and heaviest tree that falls the hardest . . . " Securities with wide popularity during a Bull market are apt to suffer the greatest fall in a Bear market. If you trade short in a $5 stock — the most you can gain is $500. (even if it goes off the board). When you trade short in a $50 stock, your gain can be $5000. (If it goes down to zero).

Rule 23. It is advisable (and more profitable) to "follow the public" at the end of a Bear market and the beginning of a Bull market in buying "cheap" stocks. Of course, this cannot be kept up indefinitely. The "law of values" must assert itself sooner or later.

Rule 24. A good stock when "ex-dividend" will regain in a few days what is lost, due to the dividend paid. This is really the test of an exceptionally good stock. Naturally, if it does not respond, it is an indication of normalcy.

Rule 25. Greater and more rapid profits can be made in a Bull market by trading in stocks of light capitalization. In characteristic fashion, Chrysler jumps about like a rabbit, as compared to the slower motions of General Motors. Nickel Plate Preferred, Pepsi-Cola, Commonwealth Southern are good and fast profit-makers. However, Wall Street is not a one-way street. What holds good for a rise is true also during a decline. In selling Nickel Plate "at market", you may get a differential of 2 points less or more — whereas an order for General Motors or U. S. Steel "at market" usually means ⅛ or ¼ point variation. (Around June, 1943 I said in my Market Surveys that "Nickel Plate is good for 20 points". It made it in three weeks).

Rule 26. The first signs of a turn downward in an era of prosperity are less orders for machinery, plants and equipment (heavy industry). Retail trade is the last to feel the effects of a depression. In fact, it may even increase its earnings and sales due to the savings in the hands of people and the high wages in vogue at the top of a prosperity period. When retail trade begins to feel the pressure of a drop in sales and the return of merchandise purchased on installment — a turn for the better is not far off. (However, it remains to be seen how this rule will work out under the latest "New Deal" reforms in "social security", "freedom from want", etc.)

Rule 27. The end of a Bear market and the near approach of a Bull movement can be recognized by general business conditions throughout the country. If, dividends are a "novelty" and there are

many bankrupcies, receiverships, great unemployment, and investors are liquidating their holdings because of a need for rehabilitating their finances in order to operate their own enterprises — it would signify that the last stage of the Bear market is at hand — that most of the "weak spots" have been eliminated — and that the law of the "survival of the fittest" is beginning to reassert itself.

Rule 28. The ability of stocks to hold their price in the face of bad news is another indication of the end of a Bear market. "The market has discounted everything," we say. Stocks are in a strong position technically, having been accumulated by a "moneyed" group which continues to accumulate in the face of adversities calmly awaiting the coming era of prosperity.

Rule 29. If I were inclined to present one major rule to guide one's *long-term investing policy* and its "timing" — I would lay down the following to take the place of the hundreds of "commandments" necessary for a successful execution of investments — it would be this: Buy stocks when the economic atmosphere appears most gloomy, with scarcely a bright spot on the horizon — when brokers' offices are deserted — when financial advertisements are a rarity and steel production is at about 25% of capacity. In short — when the public begins to think and talk to the tune of "what will happen next? Is the world coming to an end?" *That is the time to buy stocks — especially when you see the first advance in the price of steel scrap.*

Attend to your business without paying much attention to your holdings. When finally you are forced to notice that "everybody" is in the market — including your secretary and barber — and that production of steel, automobiles and radios has reached new highs — that labor is demanding more pay for less work (demands of the "portal-to-portal" variety) — that instead of hiring employees according to your own standard you are compelled to take whoever comes along, and on their terms — when the "Situations Wanted" advertisements disappear and when business houses spend more on "Help Wanted" ads than normally. *That is the best time to sell your long-term investments and sit idly by until "history repeats itself".*

Rule 30. When a Bull market has run its course for a few years the first sympton to watch for is a gradual lowering of the price index of bonds. Banks, investment trusts and other large investors have a good part of their capital in bonds. As it is always wise to take the opinion of people "in the know" — the constant disposing of bonds resulting in lowering of price is a sympton that "good" people think a top is being reached. You will also note that newspapers are full of prosperity talk and that everybody wants to "get rich quick" by buying shares — that automobile consumption is at its height — and that you have to wait for delivery on your car — that the proportion of higher-priced car sales has increased — that brokers' loans are high — that you have to place orders for commodities far ahead, and frequently at higher prices.

These are the symptons of prosperity's heights. When accompanied by falling bond prices, it indicates that a height has been reached, and that stock prices will soon begin to discount the falling-off in business which is approaching. It may not take place for another six or eight months — but the stock market "knows" this in advance and begins to adjust equities to future earnings. The sequence after the drop of stock prices will be a drop in commodity prices. After a drop in commodity prices, a general business decline will follow.

Rule 31. At the end of a Bear market — watch bond prices. If prices advance it shows that "good" people are beginning to invest in the market. To play safe they first invest in bonds. When you observe bond prices advancing substantially, accompanied by the symptons enumerated below — you can begin to invest your money in stocks. The symptons are usually the reverse of those in a Bull market.

Newspapers are full of gloom — brokers' offices are deserted — nobody thinks that stocks are worth anything — people believe that stock prices will go lower (and may even become worthless) — you will notice weeks and months of quiet and inactivity in the stock market. True, people do not want to sell — but they do not buy either. Securities which have been margined have already been sold out by brokers. Stocks are being held in hands that paid cash for them, and these do not let go. You will observe that business baro-

meters and indexes which have been dropping for eight or ten months have suddenly begun to hold their own. They do not advance — but neither do they drop. In some industries production has even picked up a little. Steel scrap may have advanced a half dollar per ton. On your charts you will note that stocks formed "bottoms" or "double bottoms" — refusing to go lower. Some brokers are going out of business — some are consolidating. Brokers' loans are at a minimum. The government is worried. Politicians are beginning to "capitalize" on "what can be done to help business".

That is the time for you to begin buying stocks. Commodity prices will advance a little later and business in general will improve within six to ten months, or sooner. The market is discounting the future earning prospects and prices of stocks will advance.

Rule 32. Do not trade in the market in order to "get rich quick" — nor be influenced by the biographies of financial tycoons and amazing fortunes "made" in the market. Many of these "stories" do not "operate" in present SEC-controlled markets. Moreover, with taxes of 82% or 93% in certain brackets — and with a program of "freedom from want" for everybody born in "God's Image" — your best chances for "Fortune" is to get it on the newstand — just as your best chance to see a "real cowboy" is not on a "wild-west" ranch — but in the movies.

Money can be made in the market in the same manner as one builds a house — brick upon brick — adding plenty of mortar to hold them together. The best way to hold your profits is: (A) by paying off obligations; (B) by purchasing those things which you always desired, whether a home, a library, or "travel". No one can take these things away from you — and do not make the mistake of selling your home in time of adversity in order to "play" the market.

Money has no particular value unless it is used wisely. The greatest pleasure to be derived from money is to use it where it will do the greatest good. This, of course, includes yourself. After a life full of interest in a variety of fields, it is my humble opinion that the greatest pleasure in life is *creative work,* such as writing this book

and my weekly Market Surveys. Money comes naturally as a result of interesting work and genuine effort to "give" instead of "take".

Therefore, trade in the market in order to be more comfortable and *in order to participate in all the good things which the world has to offer* while you can still "take it". If you feel that trading affects your nerves, and that you are uneasy and "can't sleep" — take my advice — stop trading and "get some sleep". Do not lose your health on account of the desire for more money because money will not buy health — and there can be no real happiness without good health.

---

1. Determine whether the market is in a "Bear" or "Bull" trend. Then determine further whether it is a major, intermediate or minor trend.
   Trade with the trend!
2. Determine which groups of stocks are the strongest.
   Trade in strong groups for advance!
   Trade in weak groups for decline!
3. Select the strongest stocks in the strong group and the weakest in the weak groups.
   Trade in strong stocks for advance!
   Trade in weak stocks for decline!
4. *Buy only on reactions* — Not on advances!
   Sell and short only on advances — Not on declines!
5. Place a mental or (if you do not watch the tape) actual stop-loss of two or three points on your trades.
   At all times be protected against possible losses!
   Close out when trade goes against you.
6. Protect your profits by stop-loss orders. Let your profits grow when you see stocks advancing.
   Hold out for larger profits!
7. Do not hesitate to take your profits; you may be able to re-purchase the same stock at lower prices.
   Sell when you think the market is due for a reaction!

* * * *

"Wisdom hath builded her house, she hath hewn out her seven pillars".—— (Proverbs)

CHAPTER XVII

On How To Trade Profitably In Wheat

THE TITLE of this chapter is not intended to convey that trading in wheat is any different than trading in stocks. Nevertheless, even if you never intend to trade in wheat — read this chapter. Quite a few (or most) of the principles of the "Bramson Method" of trading in U. S. Steel is incorporated in this chapter. Please take note, however, that much of what is written here will have to wait for "normal" *supply and demand* commodity markets. "Price control" by the Government, "ceilings" and "roofs", make "scientific" trading impossible.

Buying or selling wheat should be no more difficult than buying or selling stocks providing you know the "ropes". Statistics indicate that bankruptcy in business is due primarily to two elements: (a) lack of capital: (b) lack of experience. The greatest tragedies with both stock and wheat trading occur because of lack of experience and knowledge.

In the world of business if a man has a capital of $5,000, he will not go into the manufacture of automobiles or refrigerators — as such a venture requires a much larger investment. With $5,000 capital one may trade in $50,000 worth of wheat (more or less) if the trading is done "on margin". Thus, one's original capital can be stretched to ten times its "base", This practice is decidedly dangerous and the results are all too frequently disastrous. Blow up a balloon to ten times its size and the "explosion" will be all that you hear. If prices drop, the equity in one's investment shrinks fast. The broker then calls for additional margin, and if no provision has been made for this eventuality — the broker has no alternative but to sell out the investment "at market". If a trader is content to invest in wheat to the extent of his capital only — the broker cannot sell him out. Thus, he could experience nothing more than a "paper loss" during the

period of decline. In time, the investment would return to its original value.

The frailties to which men are susceptible are familiar to most of us. I venture to say that in the minds of some of you two reactions in the nature of a likely comeback are uppermost: "Yes, what you say has probably happened, but it will never happen to me". Others may not be so gentle with me and simply remark: "That greybeard is entirely too conservative – why should I trade with only $300 when I have $1,000 on hand?"

When trading in wheat use only one-third of the capital-intended for investment-as margin – keep two-thirds in reserve. I can give you no better advice. If you are tempted to utilize the full margin, rather than retaining a sufficient reserve – it is best that you do not trade at all. You can have more "fun" playing poker with your money, or "taking out" one of your "best" girls.

Before beginning to trade in wheat it may be well to forget what you know about this particular commodity and start with the ABC's. Relatively speaking, the ABC's which you will learn in these first few pages are more important than the final polishing-up process that you will receive later. Although I have already mentioned that wheat trading is similar to trading in stocks – this statement should be qualified, for in some respects it is vastly different. Certainly, many of the theories and common sense principles apply – but others again do not. So let us concentrate on wheat.

I believe that you are familiar with the "elementary mechanics" of wheat trading and, therefore, will not devote any time to these matters here. Your broker can supply you with a booklet dealing with such things as margin, commission, and the rules and regulations of the Board of Trade. I assume you know that basically wheat is *produced in order to be sold* (*and not for consumption*). Incidentally, this is true of all other commodities, as well as of stocks. *They are grown, mined or manufactured for the purpose of being sold.* This would imply that to hold on indefinitely to wheat or stocks is not businesslike. Just as a businessman buys merchandise in order to sell it – and not "for keeps" – so should this be your object when buying wheat. As with merchandise, profits are made in buying low and selling high. *Wheat constantly moves from low prices to high*

prices and back again from high to low — only to repeat its action once more from low to high, etc.

The one difference between trading in stocks and wheat (assuming that you have been trading in stocks) is to remember that stocks *can go down to zero* and can become absolutely worthless, *while wheat always has a value.* (During the depression of 1932 — when people starved and wheat was plentiful at low prices — some of it was used as a substitute for coal in heating, etc). It may go down to 45c and may go up to $4 — but it is never without some value. In other words, it is impossible to lose everything (assuming that you buy it outright) — while it is possible to own stocks completely paid for and still have nothing of value because they became worthless. Your walls may very likely be papered with valueless shares, as so many have been since time immemorial.

Another vital difference to remember is that while it may take years or decades for stocks to come back close to the price you paid for them — it is not so with wheat. Movements are more frequent. At times, the entire process of a Bull or Bear market may consume only six months or a year.

Later we will discuss varying techniques of wheat trading, giving attention to "averaging". But we will touch upon it here lightly. Briefly, if you buy wheat at 70c and the price drops to 60c — it would be advisable to purchase an additional quantity at 60c and ride up with it. When 65c is reached, losses have already been covered. If the price advances to 70c you have a 10c profit on purchases negotiated at 60c, and a break-even on purchases at 70c. This method of "averaging" is not advisable when trading with stocks for the simple reason that stocks can go down to zero or varying degrees of their original value. But this is not likely in the short Bear and Bull wheat markets.

The above remarks should be considered as a *general principle and not as a method of trading.* They are merely meant as a safeguard against excessive losses.

Before proceeding further into the more involved phases of wheat trading, let us state the three cardinal principles:

(A) If your allotted capital is $3,000 — purchase only to the extent of $1,000. Keep a reserve per bushel in the event it becomes necessary to place additional margin. With that rule in mind you will not be forced to sell at a loss if a mistake was made as to purchase levels, or if the weather acts contrary to expectations. In that event, just hold on until it comes back.

(B) Since wheat always travels in a price range of ups and downs — buy when it is in the *proximity of the low level of its previous price for that particular option.* This does not mean that the present option cannot go lower than the previous one — or that it must go down to the low of the previous option. A compromise level will be found by methods explained later. As soon as wheat reaches a point close to the high of the previous option — sell and take profits. The selling level of the present option need not necessarily be the exact previous level. It can be either lower or higher. Methods for ascertaining the selling level will be explained as we go on.

(C) Having learned that wheat is produced for the purpose of sale — do not ride back and forth with it. Obviously, you cannot know beforehand the price it will eventually reach. Therefore, take advantage of the selling level as soon as you notice that top prices are in the making. Methods for ascertaining selling levels in wheat will be presented as we progress.

The deciding factor as to whether stocks will rise or decline is *supply and demand.* If stocks are offered for sale they will decline — and if there are buyers, stocks will rise. This, of course, is the ABC of trading. Supply and demand, however, is only a *result* of other elements as, for example, business indexes, the cycle in which we find ourselves and whether there is a period of prosperity or depression on the horizon. Stocks rise when there are good prospects for earnings — stocks decline when business losses are all that can be seen ahead. Actually, there are no greater "quantities" of shares at low prices (supply) than there are at high prices (demand).

As far as wheat is concerned, *supply and demand* is *the* factor. This is the basic reason behind the rise or fall of wheat prices. If prospects for crops are good (a greater supply) — prices will decline — but if prospects are poor, with the previous year's carry-over not

excessive — demand and scarcity will push prices up. However, there are external influences, such as war scares or actual war which, due to anticipated demand, push prices up. Since wars do not occur frequently, and since the F.D.R.'s in power can place "floors" and "ceilings" on commodities — it is not advisable to put too much weight on the possibilities of war. We can leave that pleasure to Mars.

From this brief interpretation you will note how essential it is to *study crop reports.* This does not necessarily mean that one should go to extremes in a search for facts — but it is good procedure to have a more than fair idea of crop conditions all over the world. Wheat trading in this respect differs from trading in stocks. When you buy U. S. Steel you are not at all concerned about steel production in Germany, England or France. True, domestic exports may be slightly affected, but export business amounts to only a small fraction of our total steel output. Your primary concern is the domestic steel market which in turn is improved or retarded by business conditions within the country. If a building boom, shipbuilding program or large automobile production is in progress, production of steel will rise, and so will Steel stock prices.

Trading in wheat, however, becomes more of an international problem, since you must consider the Supply of wheat in the various wheat-producing countries such as Canada, Australia, Argentina, etc. Information of this nature will be found in newspapers, periodical government reports, and in reports issued by brokerage establishments.

Supply and demand is the basis for price change, but do not infer that if there is a large supply in this country that wheat cannot rise, and vice versa. The change in price is relative. Wheat can sell as low as 45c or lower, and it can also sell at $4 per bushel. This depends entirely upon the *relative* supply which is increased or decreased by crop conditions, and also upon *demand* which is largely dependent on crop conditions abroad. If there is a crop scarcity in Australia — obviously the export of wheat from that source will be small and large purchases made elsewhere. Prices must then advance. If there is an abundance of wheat in Canada — not only will our neighboring country cease buying — but it will sell abroad. Consequently, our own markets will have to compete for export

demand and face a possible pressure to under-sell even our own domestic import market.

An important element to consider in wheat trading is human behavior — a subject which has been discussed at some length in relation to stock trading. It may be well to consider the particular bearing which it has on wheat.

It is a good idea not to fool ourselves or we will never get to first base. If we buy at 60c, figuring that wheat may rise to 70c at which point we may want to take profits and unload — it is apparent that we do not hold a very high opinion of the individual who will do the buying at 70c. We are convinced that 70c is as high as it will go, and that a drop in prices will begin from that point. That is why we sell. Certainly, we would not do so if we thought it would go higher.

It stands to reason then that we consider the individual who purchases at 70c somewhat of a fool (or "sucker" in stock market language) — and rightly so. A trade is first begun by buying a quantity of wheat. Step No. 1 then is to find a seller from whom to buy. If our assumption that wheat will rise is correct — we must feel that the seller is anything but shrewd. The whole transaction is tied up with another human being and with the hopes, fears and weaknesses common to all. One of us (buyer or seller) will ultimately turn out to be a "sucker".

Successful wheat trading depends largely *upon being able to follow the professionals.* "They" are lined up against the "public" forever regarding them as potential "victims". When prices drop those who bought at higher prices on narrow margins are sold out by their brokers, and the wheat is then secured by the professionals. That is precisely when you should buy. These situations carry unmistakable symptoms with them. The press has taken on a Bearish tone concerning wheat — published interviews by grain "experts" are gloomy, predicting still lower prices — and the public has deserted the market because they bought at higher prices and have already taken their losses.

When conditions such as these are present it is a good time to buy. However, a great deal of patience is required. All purchases should be held, and an additional drop of a few cents should not frighten

you out of the market because you must not expect to buy at the very bottom. On the contrary, a further drop should encourage you to buy additional contracts. It won't be long before you will observe wheat advancing. A rise of 10c or 20c occurs. Then the public noticing a rising market, and not understanding market technique and theory, enters the market to buy. The professionals then sell them the wheat which they purchased at lower prices. This indicates that if one is to profit in the wheat market, the approach should be to give the public what it wants — namely; wheat at higher prices and then take it back from them at lower prices.

Your first step in the right direction must be a firm decision never to participate in the kind of trading in which the public indulges. Of the 15,000,000 traders in the United States, scarcely a handful have made or are making a profound study of the market. The public (speaking plurally) does not wish to learn. They *think* they know. Their knowledge is invariably demonstrated by buying wheat and stocks at high and selling, or being shaken out, at low levels.

We mentioned previously that the greatest asset in your wheat trading is a knowledge of the public's mind and its possible direction. The game is a *psychological* one. *It is a battle of brains* between the "haves" and the "have nots" — (those who have trained their minds and those who have not). The two dominant characteristics influencing the public are *hope* and *fear*. Observing prices rise, they *hope* they will rise still higher and, therefore, they buy. Seeing prices drop, they *fear* they will drop lower, and on the impulse of the moment they sell. Usually they become most fearful when prices have dropped considerably, and *that* period happens to be the first stage when good buying is indicated. True, prices may go lower, but some wheat should be purchased at that level.

Of course, you have heard all of this before. What you want to know now is where to find the Top or near Top — and Bottom or near Bottom. In other words, when to buy and when to sell. I cannot promise that you will hit the bull's-eye at all times, but if you follow the procedure outlined you will have considerably better chances of hitting the two ranges than by trading blindly. Certainly, you will have a greater chance than by concentrating your buying on

periods when enthusiasm is high (when you should sell), and doing your selling when the market looks gloomy and inactive (when you should buy). This kind of trading will play right into the hands of the professionals. It is *you* on whom they are counting to sell the wheat to when the price is high, and when they have paper profits.

To avoid these pitfalls, the first essential is *to desert the ranks of the general public and adopt the methods of the professionals* as fast as you find out how. Here are a few preliminaries to consider:

(1) Do not ask any boardroom "bench-warmers" for their opinion. There are too many addicts whose minds have been twisted by reverses, and who are impulsive. They cannot keep away from the tape. It has the same hold on them as though it were a Monte Carlo, or a race track. Boardroom habitues are always happy to find someone who will listen to them. They are always taking or giving "dope". Trading requires a well-worked out technique.

Since no scientific study has ever been perfected in public gathering places — it is natural that you will accomplish more in the quiet of your own office or home, and thus not be influenced by outside surroundings. It is good policy not to ask for advice or opinions. "He" may mean well, but why expect him to know more than you do? You should *possess the self-confidence to trade on your own* without anyone's advice.

(2) If you must tell someone about your trading, "talk to yourself". Keep your trading, whether on the profitable or losing side, to yourself. Do not boast of your profits or you may find that people will look to you for guidance, and eventually will blame you for any losses they sustain. You may be sure that they will never give you credit for their profits.

If you have a loss, and no one knows anything about it, the secret is between you and your broker. When others know about it they will either pity you, which destroys your self-confidence — or they offer encouraging words which may result in additional trades on the wrong side.

(3) Avoid small movements in the wheat market. Forget about 1c or 2c profits. Most of the money lost in wheat is on small movements. Plan ahead. Have patience for the big move to come. As a rule, some movement is in progress every five or six months. Follow

that, and forget about the daily "ins and outs" (mostly *"outs"*).

(4) If you follow sound procedure when trading in wheat, (whether mine or your own), you are not really gambling but speculating on the future. Fortify yourself by studying crop conditions and your chances of losing are reduced tenfold.

(5) When trading forget that you are speculating in wheat. Think in terms of public psychology. If you can figure out how the public will react to the non-essentials with which the newspapers are clogged — you will capitalize on their frame of mind and make money. True, quite often there is artificial manipulation in wheat. But remember, the manipulator also works on public psychology. He plans to capitalize on the two psychological factors which make men do things. One is *hope* for gains the other is *fear* of losses. *Follow him.*

The public follows a Bull market only. Prices have to advance considerably from the lower levels before the public steps in. Public interest is kept up for a while by rising prices due to their own bidding and reaching for wheat. At this stage the manipulators who have managed successfully to arouse public interest are ready to step out by unloading on the public, which is now anxious to buy. At this point you, too, should be ready to leave the long side of the market. *Follow the leaders.* Naturally, the question arises: how does one sense public interest in the market? How does one know when to step out? Technical methods for detecting these symptoms will be presented.

(6) Having progressed thus far in our preparatory work we will now take up the subject of trading on both sides of the market. As previously explained, wheat is in a continual process of moving up and down. Whenever you think that prices have advanced enough (according to your way of thinking) — and you observe symptoms that a top is being formed — there is no reason why you should not trade in wheat by selling it short and then repurchasing (covering) on its down move. Thus, you gain the difference between the high prices at which you sold, and the low prices at which you covered.

(Re-read details on the technique of short-selling in a previous chapter).

* * * *

CHAPTER XVIII

Wheat Trading By Charts

SUCCESSFUL trading whether in wheat, commodities or stocks does not call for "tips" or mysterious signals from the planets. There is a great deal of *common sense* involved in trading — and if one can consider it in that light — the chances for going "over the top" are increased enormously.

It may appear that the preceding paragraphs are of minor value, comparatively speaking, and that the real "mysteries" of "making a kill" in wheat will be introduced from this point on. If anything, quite the contrary is the case. You may equip yourself with the finest charts — engage first-rate draftsmen and bind your charts in magnificently solid leather covers with gold lettering — yet it will do you very little good if you violate any of the elementary principles outlined:

(1) If you trade on narrow margin without providing a reserve for emergencies; (2) sell out when gloom confronts you; (3) buy when every one is reaching for wheat or stocks — then you are doomed before you start.

When purchasing stocks it is sometimes natural to excuse failures by saying to yourself (mostly to others) that you bought for "investment" — being mainly interested in "dividends", etc., etc. Wheat, however, pays no "dividends" and, therefore, cannot be considered an "investment".

In a Bull stock market, with prospects for prosperity undisturbed, charts work themselves upward in a diagonal channel and are expected, when the downward line of the channel is reached, to rebound again to the upper line. Since the channel in a Bull market runs at an upward diagonal angle, the next movement in that direction is always expected to be higher than the previous top — and the next movement downward is expected to fall short of the previous low point. This is how the channel is kept up at an upward angle — for if it were otherwise it would not be a Bull market.

When that phenomenon is absent in an up move, it either forms a double top which is a Bearish signal — or the chart begins to form a downward channel which may wind its way into a Bear market. In a word, it is necessary for stocks to make continuous progress on the way up in order to be in a Bull market. Each high must be somewhat higher than the previous high. If, for instance, the Dow-Jones Averages have reached 146 — the market by sheer necessity must register 155 or 160 in its next upward move in order to confirm the Bull market. A reaction from 146, let us say to 116, without a penetration upward to 147 or higher, would in itself be a Bearish signal.

This is how a Bull market ends. The market reaches a certain point, for example 158, then there is a reaction to 142 from which point the market advances to 155 without being able to reach 158. This inability to reach 158 is the first signal that there is something wrong with the market. If nothing were wrong, it should reach 158 again and penetrate into new territory, possibly to 164. Having failed to do so, good market technicians recognize the first symptoms of danger, and some of them do not wait for any further signals — such as dropping lower than 142 on the next downward move (a-la-Dow) but begin to sell their holdings.

In wheat trading, however, these phenomena do not appear. Because the high was 78 it does not mean that a new high must be made in the next move. This is something to which you should not look forward. Each option and season must be considered as an entity in itself. If the last option's high was 78, there is no reason (providing the carry-over is large and the crop plentiful) to expect wheat to reach 78 again. It may reach only 73; stop right there; then begin its march toward lower levels.

Manipulation in wheat can only come out ahead if given certain basic conditions for the rise. Real or imaginative, these reasons must create a psychological background for a rise in prices. The public must begin to see wheat as a "buy". Otherwise, there cannot be an artificial higher market.

The whole question resolves itself into the simple formula of treating each option on its own merits in the light of international

crop conditions, weather reports and *supply and demand.* Once crop reports have been issued and the quantity of wheat on hand and in government storehouses known — the price can almost be a predetermined factor — within reasonable limits, of course.

During 1939 no one expected wheat to go up to $2 per bushel. What is the basic difference between 1939 and 1925? Why couldn't wheat duplicate the same performance? The answer is rather simple. In that year (1925) there was a shortage, while in 1939 there was an over-abundance of wheat throughout the world. If you were to have asked $2 per bushel for your wheat, a purchaser could secure it instead in Australia, Canada or other countries at much lower prices. Obviously, then, prices must be adjusted to world markets.

The logical procedure is to take the average high of the last three options and consider this as a gauge for the present option. If conditions are approximately the same, prices (barring unforseen circumstances) should be on a level with the highs of the three previous options. If the available supply is higher — it should not reach the previous prices — and if less, the price will exceed the average of the last three options.

A common sense picture begins to unfold itself. Instead of trading blindly, you take the average high price of the last three options, which let us say, was 80c per bushel — and also the average low of the last three options which, we will say, was 60c. You figure a price range for the present option between 60c low and 80c high. Consider a hypothetical case with the available supply somewhat greater than during the three previous options. It stands to reason, then, that wheat will not reach 80c — as supply will not permit it to advance to 80c. Moreover, you must recognize that it can go as low as 55c because of increased supply. That presents a range for the current option of from 55c (low) to 73c (high). Your basis for trading in wheat is within that range.

Now we are beginning to see a little more daylight. We have a "standard gauge" with which to do our measuring. The anticipated range of wheat in any option should be that of the three previous options "averaged" in price — plus or minus the effect of weather, crop reports, wheat in storage, supply and demand, etc.

The expected high and low should be drawn in horizontal lines on your chart paper. Suppose that the high looked for is 80 and the low 60. Two horizontal lines are drawn on your chart paper. It is preferable that you secure chart paper with squares divided by eights to the inches. Wheat travels in prices of 1/8 cent. Allow a square for each 1/8 cent. Insert the prices from 60 to 80 on the left side. Thus, a one-cent range will occupy 8 squares.

Proceed to divide the distance on the chart from 80 to 60 into *four divisions of 5 cents each.* Maintain that relation on the chart until there is a material change in crop reports issued by the government and brokerage houses. If the reports call for a larger supply the anticipated price range will probably have to run from 70 to 50 — or from 75 to 55. Should the reports indicate scarcity the price range estimate must be charted upward. Price revision upward or downward depends greatly on the change in quantity of wheat available. If the quantity is not considerable — no change at all may be required.

Having divided your chart into four parts — four price ranges — let us forget paper, pencil and charts for awhile and look once again into the behavior and relationship of "us humans". Man, since the beginning of time has been classified as being either rich or poor — of high or low caste — wise or foolish — educated or ignorant. In wheat trading we shall divide our prospective buyers and sellers into four classes. First, the professionals; second, the public; third, a small minority of traders; fourth, you and I.

In the bottom division of the chart we find the professionals. That is where they do their buying. In other words, they aim to buy at or near the low price of the previous options — after making adjustments for the possible change in supply or demand. You can readily see that the risks are negligible. The worst that can happen is that their calculations have not been exact, and that what they thought to be the bottom of the move will turn out to be the second, or perhaps third division. (It can hardly ever be the top). Perhaps prices will drop still lower and their purchases were not executed at the very bottom, but they protect themselves by the following method:

At the first buying stage they will invest only about 25% of their trading capital. Therefore, should they be in error and prices recede

another 5c — they will invest another 25% at this point, thus "averaging" their purchases. In the event that they erred in more than their share, and prices drop another 5c — a new purchase level presents itself and an additional 25% of their capital is invested.

Their first purchases have been made between 65 and 60 (closer to 60); second from 60 to 55, and third from 55 to 50. With prices dropping from 80 to 50, it is apparent that an upward reaction (rally) is in the cards. Do not forget that between 65 and 50 much "supply" was absorbed by these very professionals.

Let us further assume that the professionals erred and instead of prices advancing to 80 they will advance to only 65. Their transactions will still show either a break-even or a slight loss on wheat purchased between 60 and 65; a 5c profit on purchases between 60 and 55; and a 10c profit on wheat purchased between 55 and 50.

It is rare, indeed, that purchases negotiated at the bottom of the base (Division 1) will react 15c lower. But in trading by the method outlined — should that occur — nothing is lost but the labor. On the contrary —— a slight profit is made to compensate for their efforts. *That is the procedure to follow.* Purchase wheat at the "first division" of the price range, which in this case is between 60 and 65. Here you can see one difference between wheat and stock trading. "Averaging" in stocks on a "down scale" is not advisable and is rather dangerous. In stocks one should aim to "average" upward. In wheat, "averaging downward" is safe and practical provided you begin buying in Division 1.

Now, let us consider the second class. In division 1 (at bottom of the base) the market is usually very dull. Invariably, the public avoids these markets like the plague. They are waiting for the market to "wake up". It is a fact that only where Division 3 ends and Division 4 begins (on the top or near top) does public activity begin in the wheat market. Instead of reading the "funnies" at night — the would-be victim's attention has been attracted to the rising prices of wheat. The professionals, realizing that wheat is in the fourth division, and that it is unusual for prices to go over Division 4 — begin to give the public the wheat they bought in Division 1. As far as the professionals are concerned, regardless of price range whether from 60c to 80c, or from 60c to $2 — the categories are

divided into "psychological" divisions. When the fourth division has been reached they are ready to sell. The public, having bought in Divisions 3 or 4 will ride down gradually, or at high speed — depending upon the velocity of the upward move in relation to "time" through Divisions 3, 2 and 1. There, in Divisions 1, these "performers of the flying trapeze" are caught in the net of the professionals — "stripped of their wit" — to be deposited in the centuries-old human scrap heap of wasted opportunities.

Reports of hot spells, rains, drought, dust storms, etc., etc., should be watched with interest. A great deal of fluctuation in the price of "futures" is caused by these reports on the "elements". Newspapers usually stress and exaggerate these factors, and since the public invariably enters the market when "something happens", they begin to buy. ("Dust storms" whether of sand or "words" is what the public falls for). That is precisely for what the professionals have been waiting. They know beforehand that "something would happen". *It always does.*

The move caused by "bad weather" should be followed until it exhausts itself. When you note that buyers have been attracted — sell out. The "news" has been discounted by the market and it is about ready to reverse itself. For one thing, the weather, too, has to reverse itself. There is "balance" in nature.

When I speak of manipulation by professionals, keep in mind the saying that "prices have to be pushed up but that they fall down by themselves". Manipulation, as such, consists mainly of "support" on the market's reactions. Prices are thus pushed up. When the market has reached top — and the professionals begin selling short — no manipulation is necessary. It drops from its own weight. Support is withdrawn and short sales force prices down. The public, as a whole, is not "organized" to "support" a market at top levels with the result that prices must decline. The professionals, however, *are* "organized" to "support" a market at bottom levels. Prices then advance to the level where they throw their "support" in the opposite direction by selling and shorting. The better traders among the public sell close to the top by stop-losses being "touched off" — while others linger on until they are sold out by their brokers because of

margin impairment. Prices are usually brought down to the point where most of the stop-loss orders and margined accounts "are taken care of".

The terms "Bull and Bear" markets are psychological expressions of the public — and with the latter always being optimistic — they are interested above everything else in seeing prices advance. They could make just as much money in a declining market by selling short, but that would be acting contrary to their natural impulses. "The world loves a lover", and optimism can always be calculated to feed itself on the public. That is why Hollywood movies always have a "happy ending". This human trait rapidly develops into an "overflow" of optimism.

Examples are quite unnecessary. The Florida land boom, for instance, virtually saw village land sell at higher prices per square foot than metropolitan property in New York or Chicago. When a comparable over-optimism develops in the market, it is high time to sell one's wheat or stocks. The same characteristics are evidenced at the end of a Bear market. A psychological reaction of "over-pessimism" manifests itself. Trading is at a standstill.

In the final analysis, buying and selling wheat and stocks is a study in "psychology". One that can sense *mass sentiment* without being affected by its collective impulses is bound to succeed.

Successful trading resolves itself more in strength and determination of character than on any other factor. To be able to think at "present" in terms of "future" is the ultimate in achievement. The future is a consequence of the present and is, therefore, quite the opposite.

From a market view, *capital* is less of an asset than *knowledge*. A good trader will need little capital to rebuild his fortunes should he meet with reverses. *Capital* without knowledge and experience, may frequently pay for *experience,* and be well worth it. I know some men who lost heavily in the market only to come out with an *experience* and *knowledge* which they did not have before and, consequently, without the regrets which might ordinarily be expected.

Of course, these men are exceptions, since others look for the cause of their misfortunes *outside of themselves*. Obviously, this unwillingness or inability to look into oneself and attributing every-

thing to "bad luck" or to bad advice by somebody else, accomplishes nothing for the individual. Marketwise, there is really no such thing as "Dame Luck". Every gain and every loss has its reason.

Therefore, if after reading this book you decide to trade in wheat, it is essential that you begin modestly. Practice the principles and methods described herein — but test them on a small lot. If you come out ahead — test them on another small lot until you master the technique. It is then that you can begin in earnest to think of making a "killing" — but certainly not before. Speculate with a sum of money that you can well afford to lose without causing embarrassment or sleepless nights. If and when that speculation turns into a profitable venture due to the technique employed — you then have a larger sum with which to test the validity of the principles elaborated here by me, and elsewhere by others.

Not until you are convinced, after study and experience, that the entire subject is clear and understandable, should you invest more than 10% of your available money in speculation. You should retain 90% of your capital in reserve in the event of "bad judgment", which is as certain as death. One can make *many errors* and lose *many times,* but there is only one "good judgment" and only one *right way*.

Thus far I have placed the professionals (good traders) in Division 1 and the public (bad traders) in Division 4. Human nature does not readily lend itself to regimentation. Traders are human beings, and within the general categories enumerated behave like them, with notable exceptions, of course. Some professionals, for instance, will not buy in Division 1 but will wait for Division 2. (You, too, will probably buy in Division 2 by methods explained below). Part of the public will buy in Division 2, while many will begin buying in Division 3 and hold through Division 4, selling at a break-even or slight loss in Division 3. Part of the professional group will begin selling in Division 4; then stay on the sidelines for a spell. Others will begin short sales in Division 4, forcing prices down to Division 3. Right then, some of the public who had noted the price advance to Division 4, and kicked themselves for not getting in, now grasp at the opportunity presented in Division 3.

Some professionals and short swing traders will sell short in Division 4 for a few points move; covering shorts in Division 3 when buying by the public is observed. Prices are thus pushed up once again to Division 4. The final *top* in this category usually settles *below* the real Top. A definite signal is thus given to most of the professionals to begin short selling in earnest. Prices this time will decline straight through Divisions 3 and 2, and the public will either be sold out of their margined accounts, or have their stop-losses caught. In either case, they will be deserting the market for some time to come. Prices then begin to work in a narrow range with the object of finding the bottom of Division 1.

At this point some professionals buy moderately but watch developments closely. This may explain why the trading period in Division 1 takes so much longer than during Divisions 2, 3, and 4. In technical language, it is said that "wheat is making a base". This base will be tested time and again. Prices will test lower instead of higher levels. Wheat may drop to 60, rise to 65, and then test the 60 level again. This is done in order to ascertain if there are any more margin accounts or "weak sisters" to be bought out at the 60 level, or lower.

Professionals who bought in Division 1 would like to see prices go still lower. And why not? They do not sell out when prices drop. A further recession is merely another opportunity for accumulating additional wheat at lower levels. Dullness in Division 1 continues, and at times even forces prices below the bottom line. Since you are "not yet" a professional — but a "fellow-traveler" — your object is to determine when to get in.

The method of buying wheat by stages (in Division 1 or lower) has been presented with sufficient detail so that the technique will be clear and easy to follow. I should now like to present a safer and superior method, although perhaps not as profitable. The Top of wheat was made at 80. There was a fast decline from 80 to 65 and a base is in the process of being established between 60 and 65. When completed, the base should occupy more than three times the space of the upward move to 80 — and also the downward move to 65.

If the horizontal width is not greater than the horizontal distance consumed in the move up to 80 and down to 65 — conclude that the base is incomplete.

On this premise, it goes without saying that at times when extraordinary weather or crop reports appear, the base of accumulation will not be so wide and a fast move up can occur. But that would be an exceptional case and should be followed by the sheer weight of the news. Under normal conditions, however, when you see that a base has been "working" between a range of 65 and 60, *you should watch for your signal* at 65½.

Wheat is a buy at that point once it has stepped out of the range of 65 and 60 for a move up to the higher divisions. Adverse news reports may naturally keep it from advancing to the fourth division in one move. It may come up to the second or third, forming a Top there, and then begin its downward march. In such event (and again weather and crop reports will inform you) — your divisions on the chart should be re-arranged because a lower price than 60 is to be expected. Wherever it settles, the Top then bcomes the top of Division 4, and the balance of the move should be divided into four sections downward.

The signal for a price advance in wheat is the same as with stocks — namely: *A breaking-out of the base upward.* Depending upon news at the time of the breaking-out of the base, it is prudent at times not to buy at 65½ or 66 — but to let the advance continue a few points and do your buying on a downward minor reaction. This method is safer. Often the break-out will go only a point or two and then start backward immediately toward the 60 level (a false move). Should this occur, do not then expect a drop to 60. If you notice resistance around 62-63 — buy. If you notice that the 60 resistance level holds — a double bottom has been formed. *Put in a buying order then and there.* The price of 60 twice appears on the charts. It was from this point that it rose to 65½-66 — dropped to 60 — but *did not penetrate below* 60. *That is a double bottom and a buying level.*

You have already read the chapters dealing with trend lines. Read these chapters again, as there would be no purpose in repeating

them here. Wheat, like stocks, also moves in channels — (1) an upward channel; (2) then a Top; (3) followed by a downward channel; (4) a base.

If you trade in wheat you must consider two positions: First, Division 1 which is the base where buying should be contemplated; second, Division 4 where selling and shorting is in order. In Division 1 buying should be negotiated either on a scale downward in two or three places (on two or three reactions) — or delay purchases until a break-out on the upside from the top of base level in Division 1 is a certainty.

The next position to consider is the fourth division where the forming of a Top must be watched. You have the alternative of either selling out when you "think" the Top is formed — or awaiting a reaction and the forming of a double Top. (A double Top, however, may not make its appearance). *A rounded-out top — a top that stays there for weeks but makes slightly lower levels each time prices reach near the previous high is as good as a double top. Draw a line on the trend line going upward. When the trend line is broken through by the top formation — sell your wheat.*

Assuming that you have re-read the chapter in this book dealing with Trend Lines — you are now ready to consult your chart. Note that the upward move to 80 is "channeled". It is what we term "trend lines". As long as wheat is within the trend lines outlined, you can safely follow that move. Abandon it, however, (selling out) and probably go short when the price declines two or three cents through the lower line of the upward channel.

Channeling in a rising market is accomplished by connecting with each other all downward moves from the end of Division 1 upward toward Divisions 2, 3 and 4. As the move changes and a lower price is shown in Divisions 2 and 3— retrace your channel lines accordingly. This, however, may mean weakness — and so the trend lines must be watched closely. If you have occasion to change trend lines (in Divisions 2 and 3) three times during a market move — *wheat is weak and you had better get out.*

The upper ascending channel line should be run on a parallel with the lower line. What you must watch especially is the lower line. Should prices penetrate over the upper line of the channel — it

would signify that the move is almost coming to an end — indicating temporary strength only. In this strength, however, is inherent danger. Due to the sharpness of the move it will soon exhaust itself and selling is in order.

Definite (but costly) proof of weakness will be given whenever prices pierce downward through the left side of the upward channel. Naturally, when the descent also penetrates the right side, this would be an indication of even greater weakness — and that the time to get out is overdue.

(The above only in case prices move sharply upward and penetrate upper left line of channel).

In the market, as in all human experience, one mistake calls for another — just as each falsehood prompts an additional lie in order to "cover up". In trading by theory and sound common sense, the market lends itself to clarification and is readily under one's control. It will go in the direction designated by you and act as you wish it to, providing the situation is properly analyzed. Naturally, if the analysis is sound, you must "stick to it through thick and thin". Marketwise, there are only two factors: Either you are right or you are wrong. If your approach is correct and the market reacts unfavorably — which, incidentally, it frequently does in the course of its minor movements — your mistakes will be rectified in time by sticking it out. Please remember, however, that if during the correction you find that your analysis was in error — you should immediately reverse your position. This is precisely where major difficulties are encountered.

Most traders, having made one mistake as far as superficial facts are concerned, make the second mistake by reversing positions just when the correction has spent itself. In stock market language, this is termed "whipsawed". For example, John Doe negotiates a purchase and the market reacts. So far there is nothing wrong, but he loses patience on the reaction and not only sells his long stocks but decides to recuperate by going short. Usually, he does this at the very bottom of the Base when he is "convinced" that he took the wrong action. The stock, or Averages, turn around and go up. But now, since he sold his longs — and moreover, went short — he becomes

obstinate and permits his short position to ride up another 5 or 6 points. Having been "whipsawed" he then decides to stay out of the market entirely, inasmuch as the market "cannot be figured out".

Obviously, he disregarded one essential element in his trading — *Patience*. Wall Street knows that psychology. The "war of nerves" did not originate with Hitler. In fact, he may very well have copied it from Wall Street. A "war of nerves" is continually in progress and only those who can "stand the gaff" will be on deck when the stock turns around and comes back to its purchase price and then goes higher.

If one's method and plan of action is logically right at inception, one should allow sufficient time for developments to materialize. It is rare indeed for a stock to begin showing profits immediately after purchase. That, too, is logical marketwise. After making a purchase it is only natural for Wall Street or the market to test it. Will you hold on, or are you sufficiently "weak" so that they can get it back from you for less money? That is the game of Wall Street. They sell stocks at certain prices and then begin a persistent "war of nerves" to see if you cannot be weakened — either spiritually or financially — so that you will be forced to sell back to them at lower prices. If you trade on margin, they can have you "by the throat" financially. Otherwise, no one can force you to sell. They twist you into a knot mentally by dropping the price soon after purchase. "Perhaps" you sell at a loss. Most traders do. It is impossible to work intelligently with a "jittery" type of trader. No one should expect stocks to show profits immediately. This is especially true of the type of markets we had up until recently where the range of prices — the advances and declines — were narrow. If a trade does not show progress, and providing the trend is in the direction of the trade, one should give the market time to confirm the analysis.

Marketwise, whether you trade in stocks or wheat you must bear in mind that charts are the first prerequisite. These are your blue prints, diagnosis, X-rays — in fact, the major tools and instruments in your market laboratory. If you "think" you are an exception and can work from "memory" — you may pay highly for your "thoughts". A school child's definition of "memory" is "that which you forget with" — and basically the child is correct.

Now, let us repeat a few basic factors. Your first symptom of buying spots in wheat should be when prices are at or near Division 1. Do not buy in Divisions 3 or 4. You may have to compromise on Divisions 1 and 2 — depending upon statistical information of supply and demand figures. At times you will miss a move, but it is not necessary to be in the market all the time. The fact is — one should be outside "looking in" most of the time. This, too, requires a lot of patience. Do not be in a rush to buy until you observe a wide base developing. This usually occurs in Division 1. The market is usually "dead" then — transactions comparatively few — and traders are out of the market. Consequently, do not rush. Give this base a chance to develop. When you note that due to general pessimism prices dip 3c or 5c, gradually making their way up again and repeat the same process again — get yourself into a buying mood.

You need have no fear about buying on each and every break, accumulating slowly. This is done by dividing purchases over three periods. Let us say that the price is 60 and dips to 55 — a purchase at around 55 is then in order. If gradually a base develops between 55 and 50 — additional purchases at the 51 level are in order. Should you then observe the price going up to 55, dipping back again to 51, bottoming-out at that point, it should prove that the market will soon be ready for *the* advance. With this procedure you have accumulated wheat at 2 or 3 price levels. Sit tight and wait. The first good signal will be an advance of 1c or 2c over 55. This would be a more or less definite indication that it has broken out from its base of accumulation (Division 1) and will soon enter divisions 2 and 3.

Everything possible is now being done to interest the public and, of course, you have by now learned that the public is only interested in an active market. This activity will be helped along by professionals. Watch for that sign. Though you have profits, you remain sitting tight. Your charts will show a vertical or diagonal formation aiming toward the 80c level instead of an horizontal base. Begin to harness this upside move into a channel. As already explained, draw pencil lines on the diagonal upward advance. These pencil lines will harness the *bottoms* of daily moves and will extend and point upward. Within a few weeks you may find it necessary to change the

angle of advance. A sharper downward move will occur, and the angle will change.

If properly drawn, you will note that the price range travels all the time within the ramifications of the bottom line pointing upward. Maintain your position in the market until such time as the price has broken to the right of the lower diagonal line in a downward direction. This is the first signal (and sometimes the last one) that prices are due for a decline. Usually this occurs in Division 4. For all practical purposes the move has been completed and is now due for a sharp break downward. This is the time for you to sell out.

As regards trading short — you can either do it then and there, which is permissible — or you can wait for a rally. A second top sometimes forms. If the first top was made at 80, and the second top comes to a halt at 78 with activity running high — that is the signal for you to sell short (with a stop-loss and purchase order at 81).

Frequently, a second top does not form because wheat was "through" at the first top. You may thus miss an opportunity to trade on the short side. These tops, when completely formed, are to be considered as being in Division 4. Wheat is then ready to recede once again to Division 1. Ordinarily, it takes much less time for wheat to go down than to go up. Consequently, expect a fast downward movement.

How is one to know when to cover shorts? If one is not jittery and has an abundance of patience, he can carry his short position until Division 1, or its proximity is reached. Actually he can even wait until a base is formed — the base which eventually forms Division 1 — and will be the forerunner of Division 2-3-4. Cover at bottom and at the same time buy for the next up move. This would be unduly trying one's patience and, therefore, it is best to cover in the vicinity of Division 1. In other words, no one should expect to buy and sell at extreme prices — either top or bottom. This is impossible and one should not attempt to do the impossible. (And still, my own experience would prove that the "impossible" can be accomplished quite often. When wheat was around 70c I set a "top" of $1.14 to my clientele. Wheat made $1.14⅛ high and receded back

into the 80's. Then I set a price of $1.54 and stopped commenting on wheat because of Government interference with prices. As of September, 1943, wheat did reach $1.53¾ and receded).

You have learned so far that wheat, like stocks, is always in one of four divisions. Moreover, you have learned that buying should not be done in Divisions 3 and 4 and that selling should not be negotiated in Divisions 1 and 2. If your guiding principle is to buy and cover in Division 1, and sell and trade short in Division 4 — you will come out with profits regardless of the section of Division 1 in which you did your buying — or the section in Division 4 in which you did your selling. In market language, this procedure is called "taking a chunk out of the middle".

Opportunities for more frequent trading and small profits (scalping) present themselves in Division 1 and 4. Of course, these opportunities are more numerous and less speculative in Division 1 than they are in Division 4. Usually, when a top forms in Division 4 — prices drop at a fast pace. Therefore, trade the short side in Division 4 when prices reach the previous near top. Do not buy at the bottom of Division 4 — nor at the Top of Division 3.

Division 1 consumes more time and gives one more opportunities for trading. This is accomplished by buying at the bottom of Division 1 and selling out as soon as it reaches the top of the same division. One can then trade short on the top of Division 1 and cover at the bottom of Division 1 — repeating the process as long as the base is in a formative stage and does not break out one way or the other.

For instance, if purchases are made on the bottom of Division 1 at 60, sell out as soon as 65 is reached. At the beginning of the base formation you naturally have no idea of the ramifications of Division 1. Therefore, it is advisable not to do any trading at all until some sort of a base develops so that you know the price range of Division 1. After the chart gives some evidence of this — begin trading by buying at 60 (if that was the bottom of Division 1) — with a stop-loss at 59. If you erred, and 60 does not prove to be the bottom of the base, it may just as well go down to 55 or lower. Thus, if you are a short-term trader there is a small loss and you are out of your purchase. Stay on the side lines for a while and observe where the downward move will end. When that is in evidence, buy with your eye on 59. If that point

is penetrated upward, you may hold on until 65 or thereabouts is reached — or better yet — when you note the move exhausting itself.

While I have given you some ways and means of how to trade in wheat on minor fluctuations — (and also previously in stocks) — I do not recommend minor trading in either wheat or stocks. The time and energy expended — if consumed on the main market swings — will net you more profits. Besides, you will not be "on edge" daily.

Once more I wish to say that you should not trade in wheat without stop-loss orders. *Re-read chapter on stop-losses in stocks.* The rules are the same. Stop-losses should be placed one cent above or below previous resistance levels. Place your stop-loss orders with your broker at time of purchases or sale. When placing stop-loss, also place an order for a similar quantity in the *opposite* direction — so as to make up your losses fast.

* * * *

Tsze-lu said, "If you had the conduct of the armies of a great state, whom would you have to act with you?" The Master said, "I would not have him to act with me, who will unarmed attack a tiger, or cross a river without a boat . . . My associate must be the man who proceeds to action full of solicitude, who is fond of adjusting his plans, and then carries them into execution."

— (Confucianist Scriptures)

CHAPTER XIX

How To Make Money In The Market

I HAVE already discussed many theoretical points, technical ideas, and mechanical and psychological factors. I could write countless additional pages introducing other systems and methods used in forecasting market prices. But I feel that it would not add anything basic to that which has already been presented, and might lend itself to confusion.

Frankly, I have no desire whatsoever that you employ your time and energy in drawing charts of market moves and market action which have little or no meaning, and can produce no profits. Therefore, in this concluding chapter I shall attempt to confine my thoughts and ideas to the practical and basic and which, if thoroughly absorbed, should serve you well.

I have no intention of introducing all the methods which I personally practice in forecasting market action for Seamans-Blake. Most of the "methods" are of my own design and my "stock in trade" as a professional. Some of them require a chartist, a calculating machine and other apparatus which obviously would be impractical for the average trader.

The aim of this book is not to make a "professional" of you — but to enable you to trade more profitably. If one desires to become a professional — it would call for devoting most of one's time to market study. And by this I do not mean a "few hours" daily. If one prefers the market to the extent of being willing to give up practically "everything" in favor of this "hobby-lobby" — he will find himself with a full-time job, and a rather costly one. (Should this be your desire, however, you may write me — and if time and circumstances permit, I shall make reply).

This book has been designed for the purpose of placing before you basic requirements for market trading so that you can do so profitably and eliminate the handicaps generally encountered by the novice. In this respect, I think it is well to caution you that events having a

bearing on the market change more rapidly nowadays than in the past. Moreover, the current factors which have an effect on our contemporary markets are more intricate and in greater variety than those of past generations.

To be a good market prognosticator one must:

1. Be a sound political observer of the American scene.

2. Understand international politics to such an extent that no political commentator (on the radio or in the press) can "tell" him anything.

3. Be a first-rate practical economist and understand economic conditions — not only in this country but abroad as well.

4. Have more than a fair knowledge of psychology and a sympathetic understanding toward human beings.

5. Find in market movements the *meaning* which they convey as opposed to what they *reveal on the surface.*

6. Be able to "write" newspaper headlines months and years ahead.

As a trader, success in the market depends in good measure on the individual "characteristics" of the trader. "Finding the right man" for the stock market is just as important as it is for a sales or manufacturing organization. Many successful industrialists and merchants owe their success to the fact that they possess the ability to hire the *right man* for each job. If a manufacturer or merchant embarks on a new undertaking, his success or failure is 100% dependent on his ability to find the right superintendent for his factory or store — the right sales manager and the right advertising man. If he succeeds in lining up the proper men for the various departments — his business will be successful — providing he has sufficient capital in proportion to the character and size of the undertaking.

In the market it is imperative that *you be the right man. If you are not — there will be few chances to profit.* During these many years I have had the opportunity through my work to come in contact with thousands of traders — either through correspondence or by their visits to my offices. Some of them are *always complaining* and, of course, *always placing the blame on others.* It is either the fault of their broker or the fellow from whom they took "advice". "I always seem to be doing the wrong thing", they complain. But the fact re-

mains that they have been doing the "wrong thing" because there is something wrong *within* them *marketwise.* They are *not fitted* for market trading. Instead of playing the game, they trade *against* the market and *against* themselves and their better judgment.

There are a thousand ways which "lead to Heaven". Marketwise, it can be said that there are a *thousand ways to lose money,* but *only one* to make it. Likewise, there are *thousands of people who force you to take a loss* — but *there are none who force you to take or make a profit.*

In my experience with thousands of clients and their "histories" I have invariably found that the greatest handicap one has in trading is *oneself.* In saying this I am speaking of *character,* rather than education. The latter can be acquired through reading, study, observation, etc. In this book, and probably in market literature of all kinds which you have read, there appears the oft-repeated statement that the two enemies of the average trader are *fear* and *hope.* These are usually accompanied by another "playmate", namely, *greed.* Surely, there is nothing wrong in *hoping.* In fact, it is an admirable quality. Only those who can *see ahead* and *hope for better times and better things, and more of the beautiful things in life — can be successful.*

It goes without saying that one who has *no* hopes or does *not* care to advance himself will certainly not make any progress. The fact is, we *admire hope, ambition, initiative* and *courage.* But that is just where the trouble begins. "Mr. Hope" is usually accompanied by shady assistants of various complexions. If a young fellow *hopes* to marry the girl who has taken his fancy, and consequently girds himself with ambition in order to make a success — that is highly commendable. But if our young Romeo, *hoping* to marry the girl conjures up a castle of lies, until the young woman finally says "yes" — then that is another story indeed. Of him it can be said that he has "lost" in spite of his superficial "gain".

If one "hopes" to make money in the market and sets out accomplishing this purpose in a common sense fashion — familiarizing himself with market action — searching for proper advice and guidance — learning all he can about market movements and the reasons behind them — and he is willing to pay for his knowledge in time

and cash — then that man will succeed and will thank "Mr. Hope" for giving him the "tools" with which to realize his ambition.

But, if in his eagerness to "win" he were to stake his money as he would on a race horse — see only the present and fail to look backward; thinking that all which is needed to make money is to buy 100 shares and "hope" that they will go up — then that would be quite another matter.

What has been said about "Mr. Hope" applies just as well to "Mr. Fear". If one trades with open eyes expecting at every moment that things may turn against him — realizing that he has no "monopoly" on "market action" — and is protecting himself "coming and going" — that is creditable. When one walks into a lion's cage aware of the jeopardy in which he finds himself — the battle is not likely to be lost. Being fully aware of the dangers, he will prepare himself and adopt the best measures available for battling a lion.

On the other hand, the "gladiator" who enters the cage "hoping" that the lion is old and toothless will become *possessed of fear* at first sight of the beast. The battle is lost before it had begun. *Fear* of what may happen is a good virtue provided one takes measures to protect oneself beforehand. *If you expect the worst — you cannot lose.* If you are prepared for the worst — nothing of a surprising nature can ever happen to you.

How does this work out in practice? If you are not "planning" on *hoping* — you *base your hopes on a "plan"*. The man who is born with a "silver spoon in his mouth" — or who lives on inherited wealth — is seldom forced to think, and consequently, is apt to lose all that he has. On the other hand, if you know that you have *nothing coming to you* — that the world *does not owe you a living* — that you *have to work* for your money — you will enter the market (or any other undertaking) with open eyes. And you will ask: "What are the chances of losing my money? Am I trading with a heavy margin which will enable the broker to sell me out if the market goes against me? Do I allow "Mr. Greed" to place all my money on *one card* and to take on heavy margin besides? Am I so greedy for profits (which I hope to make) that I will risk my entire capital and even borrow more?"

If you can exercise enough fortitude to withstand these temptations — then you have eradicated at once two of the trader's demons — *hope and greed.*

The "imp" with which to contend with now is "Mr. Fear". Let us consider the tactics for eliminating him from trading practices. "I have seen to it that I have nothing to "fear" — not even *fear* itself. I have *not* placed my entire capital in one stock. I have *not* borrowed from my broker on margin. I have placed a stop-loss of 2 or 3 points on my purchases. The worst that can happen is that I will lose $200 or $300 on these transactions. This would not be a catastrophe because it is only *five percent of my capital.*

I have nothing to fear. I can sleep soundly, wait patiently until the stock advances. I do not expect to make a fortune in these five stocks. I shall be perfectly satisfied if I can secure 20% net profit. True, I would like to make much more. But if I do that, I would have to take in "Mr. Hope" — and perhaps "Mr. Greed", as partners. I do not believe in "getting rich quick". I will trade conservatively and lay brick upon brick. If I can increase my capital 30% to 40% yearly — I shall have increased it by 100% at the end of three years. That is sufficient".

Greed and *Hope* argue that you can make 1,000% in three years — or perhaps 10,000% — but that is where "Mr. Common Sense" comes in. He is *the* sensible fellow whom you should really take in as a partner. His thesis is somewhat as follows: If everybody trading can make 1,000% or 10,000% so easily — then why do 90% of the folks in the market lose their money? This should prove that it is not as easy as "Mr. Hope" and "Mr. Greed" try to convince you that it is. Moreover, the very fact that 90% of the people lose money instead of make it, substantiates the fact that there is *more to the market than "Messrs. Luck", "Hope",* or *"Greed"* can do for us. I better prepare myself through study to be in the 10% class who do make a lot of money in the market.

With this in mind, you should instill within yourself these precepts: "I had better trade conservatively — learn as I trade — trade as I learn. If I make a mistake it will only be to the extent of 3% or 5% of my capital. *I will learn something from that mistake.* I will

again chance another 3% or 5%. This would seem to be a better plan than staking all at one time".

Another enemy of trading is "Mr. Over". In stock market language, he is called *"overtrading"* — a near relative of "Mr. Greed". *You overtrade when you trade on margin — you overtrade when you are in the market at all times — you overtrade when you have your entire capital invested in one stock. You overtrade when you keep jumping "in and out" of the market like a rabbit.*

In this final chapter I am trying to place before you the necessary day-by-day elements which make for success in the market. *There is no limit to a trader's knowledge.* If I had nine lives like a cat, and were in a position to devote twenty hours daily to the market, I could still find myself analyzing market action. There are more than 1,000 issues traded on the Curb and Big Board daily. Including Commodities, (each of which is a *story* and a *study* in itself) there is no limit to the time which can be devoted to study. I only watch about 225 stocks, and yet, there are almost daily opportunities in a great number of other issues. But it is not possible to find the time to study them all. Once again, it is best not to permit "Mr. Greed" to take advantage of you. It is better to watch *twenty* active leaders closely (notwithstanding the fact that you would lose opportunities in others) than to give a superficial "once-over" to hundreds of issues. So do not feel badly when you hear that a certain stock went up and you "did not know anything about it". *That, too, is a form of greed which is unhealthy for the trader. Your opportunity will come,* if you watch two or three issues closely in every important group.

While on the subject of market ethics and psychology, it seems to me that you would be doing yourself a favor to practice the following:

Do not indulge too much in the favorite pastime of "watching the tape". It is quite different from a baseball game, a theatrical performance or horse race. The danger is, that unlike the theatre or baseball park, you *become the actor* in the drama (or should I say tragedy). If you need further proof of this, I shall let you in on a little secret. If for one moment you think that I have stock "tickers" on every desk and wall — then you are going on the wrong assump-

tion. We have "no such animal" in our offices. You, too, can avail yourself of the same facilities which we utilize — namely; have your broker telephone every hour giving you the Dow-Jones Averages and volume of hourly trading. That is all you need to know.

Our analysis begins after the market is closed. Our staff of statisticians then begin to chart and post the progress of various stocks, groups, volume, character of trading, etc. The market closes at 2:00 o'clock (Chicago time). By 4:00 o'clock, the entire market's action for the day has been charted so that it can be analyzed calmly and without prejudice — and *with nothing but the facts before us.*

What I mean to convey is that it is not necessary to watch the market minute by minute. Most important of all, if you have the "feeling" that you *have* to "be there" (to see what is happening to your stock) — it is your subconscious mind (which all too frequently is right) telling you that you made a mistake about a certain purchase. This is the message your subconscious mind is conveying to you. If you knew beyond a reasonable doubt that you *held the right stock* — purchased at the *right time* and the *right price* — you would *not* worry about what would happen to it during the day. (The man who is in the habit of calling up his home ten times daily to see what his wife is "doing" had better get himself a more stable wife — and vice versa).

In the market, *things do not happen suddenly.* One that understands market action has ideas beforehand as to what the market will do tomorrow — the next day — and possibly the next few weeks or even months. *He knows* that the market will not run away from him. And if occasionally it should — he *knows that he can catch up with it.* What I mean to bring out is this:

Only the fellow who is "conscious" that he has a "weak" liver or kidney will constantly be thinking about them. You and I never do. It might even be difficult to convince me that I possess either one of these spare parts in my anatomy because they never bother me.

Until you acquire that *sureness of action* which comes from a conviction that you did the right thing — you will not be a success marketwise. *The market cannot run away from you. The only time that it could do so is in the event you were wrong when you negotiated the trade.* But that is a subject for *quiet* meditation and study.

Why am I also opposed to "talking it over" with other traders — and why do I stress it so many times?

The "ethics" of the stock market fraternity — broker's especially — is the highest of any business or profession. The broker may give you the proper advice. But the "customers" you talk to while watching the tape may "take you for a ride". Man is a *social* animal. If I were to believe Darwin, then we are all descended from monkeys — (a theory very much resented by the "International Monkey Association").

Be that as it may — we are all quite adept at the art of *imitating* and, consequently, are bound to be pulled into a *whirlpool of activity*. Ask any broker — he will be quite outspoken and candid and tell you that the *real* traders (and those who are his best customers) who *make money* in the market are *not* those who "warm the chairs" in his board room. Neither can he rely on those clients as *steady* customers, for that matter. Their money is invariably gone by the time they have worn out the "seat of their pants". New "suckers" come to take their places.

I should like to see you trade calmly. For lack of a more clear-cut and satisfactory terminology, I call it *trading scientifically.* There is altogether too much *impulsiveness — too great an urge to follow the boardroom fellow next to you* when he jumps up from his "hot seat" and places his order for ten shares of "lunar". Do not cultivate his friendship by exchanging "opinions" — and you will be unaware of his "activities".

I possess few or no superstitions in my private life. I fear nothing — not even ghosts or my mother-in-law — (and take it from me she is plenty of a problem). But through my experience I have found that *there is power in secrecy.* If you find that you did the wrong thing in making a purchase — and providing no one knows anything about your mistake — you will *correct* it quietly by taking a small loss, small profit, or break even. But the moment you let someone else know what you bought, you are practically under a moral obligation to *make good* your purchase. Certainly, you cannot afford to let your "friend" know that you "made a mistake". It will count against you. He will not consider you "smart". You will then most likely

"hang-on" "hoping" to *prove to your friend* that you *were originally right.*

But if you tell no one — *keeping the mistake to yourself* — you will correct it much sooner. Moreover, *your pride will not suffer.* We are never ashamed of the things we do, no matter how evil or foolish — providing *others know nothing about them.* It has been said (and perhaps wisely) that a "crime" begins only after one is "caught with the goods". By not accumulating boardroom "friends", you will keep your trading to yourself. Psychologically, you will have *nobody to "fight" with when making decisions.*

There is one other reason why I do not want you to discuss your affairs with boardroom "bench-warmers". *Theoretically, there is actually nothing wrong* if your *stock reacts a little* after you purchase it. That is quite natural. The reason has been discussed elsewhere. If you purchase U. S. Steel at 55, you may learn a day or two later that it is 57. You are not worried lest it come down to 50 because you have already placed a stop-loss at 52⅞ and a selling order at 66. Until you receive a "bill" from your broker that your Steel has been sold out at 66 — or your stop-loss has been caught at 52⅞ as per instructions given to your broker at time of purchase — you really have nothing to worry about.

The $300 loss incurred was "expected" by you beforehand at the time you made the purchase. You proved it to yourself by placing a "stop-loss" order three points away. Your primary interests is not how far the stock goes down — but how far it will advance. You will find this out soon enough from your evening newspaper. The fluctuations on the tape will do you no good and are bound to get you into a "nervous" condition.

In the final analysis, *that is what the tape is for.* You bought at 55. They bring it down to 53. That can only react upon you in one way: "I am already a loser of $200. Why should I lose $100 more?" You sell out. To your dismay, five minutes after you have done so the stock jumps up a point or two, or even more. No one can figure out these minor up and down movements — and no one should try to take advantage of them. If you look in your newspaper at the end of the day you will get a much clearer picture of the stock's behavior than if you had "watched" the tape all day. And what is most im-

portant — you will ride over the waves "at ease" and with no time wasted in "watchful waiting". Thus, your stock will arrive at the proper destination (66) without your worrying over it.

If one were to ask what makes for success in *trading* — (in a foregoing chapter I gave *one* rule for long-term investment) — I would be inclined to say *a proper perspective for and of market action.* I do not mean to imply that the "proof" of the pudding is in the "eating". It does not necessarily mean that one who made money in the market *has* a proper perspective — and that one who does not make money *lacks* that vital requisite. The fact that an individual has made money in the market does not make him a *good* trader because it does not prove that he can do so continually.

Neither do I wish to imply that one who has lost money in the market is necessarily a bad trader. *There is more potential confidence in the man who has lost money than in one who has made money* — everything else being equal. The law of action and reaction comes into play as far as these two individuals are concerned. The one who has made money is most likely to lose it — and the one who has lost money is entitled to a break and may make some. (You probably remember what Jesus said about those who are "down and will be up", and vice versa). The one who has made money, assuming that he has made it without a study of market action and without fundamental preparedness, has a dose of "over-confidence" within him. Over-optimism will get the best of him and bring him down. The trader who has lost money in the market is most likely "deep in thought" as to the whys and wherefores of his misfortunes. If he is sufficiently intelligent he will continue searching for enlightenment as to why and where he erred. That in itself will in time make him a successful trader.

Much can be included under the superlative "proper perspective". Let us begin with elementaries. Marketwise, the elementary ABC's are of much greater importance than the fine theoretical points. Furthermore, one cannot make much headway in the "fine arts" unless he has mastered the elementary principles of common sense to a point where they become "second nature". One of these is the realization that *stocks are TO BE SOLD after purchasing.* From my

own experience and observation, I conclude there are more losses in the market due to "overstaying" than for any other reason. Too many "would-be" traders buy stock (quite often at the right time) and "forget" that the purpose of the purchase was *profits* — and that to realize profits *one must first sell the stock.*

If traders could bring themselves to realize that stocks move up and down in a continual procession — they would sell their stock whenever it reaches its destination — or when there is, let us say, a 20% profit to be cashed. Wall Street says "one never went broke taking profits" — and Wall Street is as wise as Creation. It is the sum total of Wisdom. *Follow them.*

You have heard much of "buying at the bottom" and "selling at the top". This, of course, is a "dream", and like all dreams is seldom realized. Only good technicians and professionals could hit exact tops and bottoms at times. It is impossible in the majority of cases to buy right at the bottom and sell out right at the top. One had better look for opportunities to buy *near* the bottom and sell *near* the top. In technical language, that would call for "following the trend".

In other words, *travel with the trend of a stock and not against it.* In a practical way, *it is much easier to "follow a trend" than to "buy at bottom".* You get *no* signal from the stock for purchasing at bottom. Quite the opposite. When it is at the bottom it is inactive, deserted and seems to signify lower prices. On the other hand, if you "follow a trend" in a stock it is much easier. If you note on your chart that the trend of the stock is beginning to point upward — ride with it until you notice the trend halting. *TAKE PROFITS.* Here are two words which are really the essence of success marketwise — *TAKE PROFITS! — TAKE PROFITS!!*

The principle to remember is that *stocks are bought primarily in order to be sold and accrued profits cashed.* If this principle is uppermost in the mind of the trader, he is practically "forced" to take a profit when the stock advances. This in itself eliminates more than half of the troubles one encounters in trading — namely, "forgetting" to take profits.

If one neglects to cash his profits because of "greed" for more, the stock usually begins its "return trip" to lower levels. The trader then has only two alternatives left: (1) break even whenever the stock reaches his purchase price; (2) await the next upward movement of the stock. In either case, the trader has his money tied up for months without realizing any profit. Is it not better to have "some" profit than no profit at all (or a loss?)

Individual stocks travel on a time schedule. Some stocks will cover as much distance in a month as others will in a year. Depending on the stock one holds — at times months or years of opportunities for profits have been lost. *So better cash profits.*

This brings us to the most important subject in the *technical* field of analysis, namely, charts. If anyone tells you that he has consecutively increased his capital in the market during a period of years — *you can take it for granted that this trader made proper use of charts.* True, there are *periods* in the stock market when *anyone* can make money by the purchase of *any stock.* All that is required is a boom market lasting a few years (such as we had in the last decade). You have probably heard of traders who knew nothing of market technique, and still made money in the market. However, this was only *for awhile.* Between 1929 and 1932 most of them were profitless, and in a hole. And that repeats itself with every depression.

Because of the principles involved the subject of charts should be of great importance to you. You buy stocks for one of four reasons:

(1) Somebody has given you a "tip" on what to buy.

(2) You see the market going up, or you read in newspapers about how much the market has advanced that day, and you decide you might as well "be in it".

(3) You see on your charts that the stock is ready to be bought from a technical standpoint.

(4) Your charts show you that the entire market, as represented by the Dow-Jones Averages (or other standard Averages), is a buy.

In categories (1) and (2) you will find the trader who makes money sometimes — only to lose it later on. He is especially full of "paper" profits. (If a poker-playing machine or a horse "race" would not "pay off" at times — they would not attract cash customers.

All "gambling", from Monte Carlo to Bingo, implies "paying off" to some — sometime). You find such a man in boardrooms telling of his "luck". All his stocks went up 7, 8, or 9 points. He had $20,000 at his broker's (mostly in paper profits), but he held on waiting for each stock to show 10 points profit. Why ten? Well, many things in this world are counted in ten's — ten fingers, ten toes, the Ten Commandments, etc. Meantime, his stock reacted downward, with him "hoping" that it will come back — but it did not.

In this category you will also find the trader who does not understand anything about economic and political elements which propel stock prices. He has purchased stocks more or less at the right time from an economic and political standpoint, but he has taken no pains to watch for a change in these very elements — with the result that his good profits were lost and a good part of his capital with it.

In categories (3) and (4) you will find traders who understand that the entire stock market and individual stocks move at all times in a certain pattern — up and down — and down and up. These traders understand that in order to consecutively make money in the market they must buy stocks when they have completed their down move — and sell stocks when they have completed their up move. They also know that the time to buy stocks is when political and economic conditions are known to be bad — and sell stocks when these conditions have improved. These traders protect their profits with stop-losses. If they cannot get a full loaf — a half will do. The capital of these traders keeps on increasing yearly.

Do not assume that chartists, economists and political analysts have it all their own way in market action. We, too make mistakes. But we protect ourselves by stop-losses, and by the ability to *reverse ourselves* when we find our analysis wrong. We *follow* the market instead of enforcing our opinion on it.

At no time are political and economic conditions such that they can stand only one interpretation. Usually, capable economists and political interpreters differ in their analysis. Ultimately, this is what makes the market. A number of people possessed of purchasing power think favorably of political and economic conditions and, therefore, they purchase stocks. Another set of influential buyers have contrary ideas on these subjects — or are uncertain as to the

correct analysis and, therefore, in order to protect themselves they either sell stocks or stay away from the market. The power of those who buy brings stocks up — the lethargy or indecision of others affects the market downward. The battle goes on interminably. In due time, political and economic events clarify themselves to such a point that one of these groups changes its opinion. Either the buyers enter the selling side — or the sellers enter the buying side

---

The best test as to whether you are a "good" trader are your own emotions. What are these emotions? Do you "itch" to buy when you note the market going up sharply? Do you "feel" like shorting when the market is selling off sharply? If you do — then you have not as yet achieved the basis for calm trading. But if your first *impulse* is to *take profits* when you see prices going up and when the market is dropping sharply your impulse is *to buy* — then you have mastered the first principles — and beaten the market "Satan" at his own game.

Obviously, I do not for a moment imply that each and every time the market drops you ought to buy. As you progress you learn to differentiate between "waves" of activity. There are times when you *should go into a buying wave.* Such signals are often the beginning of intermediate and major moves — and should certainly not be ignored. However, it does not minimize the importance of having you *think* in terms of selling and shorting when the market is up (allowing for exceptions) — and having you *think* automatically in terms of buying and covering shorts when the market is down. On the down side you can take your time in a majority of cases as the market establishes a base of liquidation before advancing. On the up side, however, it is a different story. It is best to take profits while the market is 'hot". You usually get a better price for your stocks then.

If these are your *impulses* (rather than the contrary) — you can congratulate yourself on the fact that you are not on the stock market "sucker list". "They" will not "take you for a ride" any more when "they" unload stocks on the public. You will be selling when "they" do — and probably place your short sales at the same time. "They" will not be able to frighten you into selling by drop-

ping prices, as you will then be a step ahead of them. You will have your long stocks sold out already and will be short — making profits with each additional drop.

To do this consecutively — and to be successful in your stock market operations — re-read this book a few times. It changes body, face and color with every reading — and just as with the woman you love — you will discover "something" new with each and every reading.

"Time" — as expressed in *observation, practice* and *experience* will gradually unfold before your own eyes the "seven vails of mystery" surrounding stock market operations. In its stead "wisdom" will have "hewn out her seven pillars". From then on you can not help but be successful.

* * * *

APPENDA

My work is finished. I am sorry — in a way. For the last three months I have given it all the time I could spare from my regular work. The surroundings in which this book was written — in my cottage in Indiana overlooking Lake Michigan — were pleasant and tranquil. Now that it has come to a close a real pleasure in life — creative work — has come to a temporary halt.

This book, as well as my various lectures, were written with the sincere desire to present to my clients a comprehensive understanding of "Market Action" so that they can follow me to better advantage when reading my weekly Market Surveys.

I will consider it a personal favor if you will write me your reactions to this book. Suggestive criticism of a nature which might improve my next edition will especially be appreciated.